ARGONAUT GOLD

Interim Condensed Consolidated Financial Statements

(Unaudited and expressed in thousands of United States dollars)

For the three and nine months ended September 30, 2019 and 2018

ARGONAUT GOLD INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited and expressed in thousands of United States dollars)

	September 30, 2019	December 31, 2018 (Note 2(a))
ASSETS		
Current assets		
Cash and cash equivalents	$ 35,555	$ 15,378
Receivables (Note 3)	19,928	23,646
Inventories (Note 4)	75,565	68,689
Prepaid income tax	539	256
Prepaid expenses and other	2,108	2,278
Derivative assets (Note 13)	723	510
	134,418	110,757
Non-current portion of inventory (Note 4)	21,035	20,480
Mineral properties, plant and equipment (Note 5)	568,292	556,054
Deferred income taxes	5,958	6,789
Derivative assets (Note 13)	303	-
Other assets	331	436
Total assets	$ 730,337	$ 694,516
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 6)	$ 35,729	$ 34,788
Income taxes payable	8,117	1,724
Flow-through share premium (Note 8(b))	792	-
	44,638	36,512
Debt (Note 7)	14,000	13,000
Reclamation provision	17,148	16,801
Deferred income taxes	17,344	16,581
Derivative liabilities (Note 13)	235	-
Other liabilities	3,158	2,597
Total liabilities	96,523	85,491
SHAREHOLDERS' EQUITY		
Share capital (Note 8(b))	789,404	786,200
Contributed surplus	17,977	17,137
Deficit	(84,598)	(98,965)
Accumulated other comprehensive loss	(88,969)	(95,347)
Total shareholders' equity	633,814	609,025
Total liabilities and shareholders' equity	$ 730,337	$ 694,516

Commitments and contingencies (Note 12)

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

ARGONAUT GOLD INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)

For the three and nine months ended September 30, 2019 and 2018
(Unaudited and expressed in thousands of United States dollars)

	Three months ended September 30, 2019	Three months ended September 30, 2018 (Note 2(a))	Nine months ended September 30, 2019	Nine months ended September 30, 2018 (Note 2(a))
Revenue	$ 66,845	$ 41,310	$ 196,755	$ 144,427
Cost of sales				
Production costs	41,471	29,850	133,008	84,959
Depreciation, depletion and amortization	11,178	7,910	33,255	24,554
Inventory write down (reversal) (Note 4)	(267)	6,868	(4,697)	6,868
Total cost of sales	52,382	44,628	161,566	116,381
Gross profit (loss)	14,463	(3,318)	35,189	28,046
Exploration expenses	138	138	444	391
General and administrative expenses	3,371	2,707	10,522	9,601
Profit (loss) from operations	10,954	(6,163)	24,223	18,054
Finance income	10	10	23	25
Finance expenses	(423)	(286)	(1,327)	(889)
Gains on derivatives (Note 13)	544	159	1,003	584
Other income (expense)	(1,092)	1,223	816	81
Income (loss) before income taxes	9,993	(5,057)	24,738	17,855
Current income tax expense (recovery)	4,633	(608)	8,777	2,941
Deferred income tax expense (recovery)	496	(1,763)	1,594	4,990
Net income (loss) for the period	$ 4,864	$ (2,686)	$ 14,367	$ 9,924
Earnings (loss) per share				
Basic and diluted	$ 0.03	$ (0.02)	$ 0.08	$ 0.06
Weighted average number of common shares outstanding (Note 9)				
Basic	178,561,364	177,795,549	178,279,297	177,692,126
Diluted	181,270,219	177,795,549	180,406,067	179,004,313

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

ARGONAUT GOLD INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three and nine months ended September 30, 2019 and 2018
(Unaudited and expressed in thousands of United States dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018 (Note 2(a))	2019	2018 (Note 2(a))
Net income (loss) for the period	$ 4,864	$ (2,686)	$ 14,367	$ 9,924
Other comprehensive income (loss), net of tax				
Items that may be reclassified subsequently to net income (loss)				
Foreign currency translation differences	(2,615)	3,912	6,378	(6,992)
Comprehensive income for the period	$ 2,249	$ 1,226	$ 20,745	$ 2,932

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

ARGONAUT GOLD INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three and nine months ended September 30, 2019 and 2018
(Unaudited and expressed in thousands of United States dollars)

	Three months ended September 30, 2019	Three months ended September 30, 2018 (Note 2(a))	Nine months ended September 30, 2019	Nine months ended September 30, 2018 (Note 2(a))
Operating activities				
Net income (loss) for the period	$ 4,864	$ (2,686)	$ 14,367	$ 9,924
Items not affecting cash:				
Depreciation, depletion and amortization	11,269	7,937	33,437	24,652
Gain on disposal of mineral properties, plant and equipment	(1)	-	(234)	(228)
Share-based compensation	755	633	2,254	2,076
Finance income and expense	413	276	1,304	864
Unrealized foreign exchange (gain) loss	209	(229)	(459)	377
Gains on derivatives	(544)	(159)	(1,003)	(584)
Deferred income taxes	496	(1,763)	1,594	4,990
Inventory write down (reversal) (Note 4)	(267)	6,868	(4,697)	6,868
	17,194	10,877	46,563	48,939
Changes in non-cash operating working capital items				
Receivables	3,708	490	3,722	298
Inventories	(8,358)	(11,474)	193	(22,813)
Prepaid expenses and other	(124)	(315)	(807)	(957)
Accounts payable and accrued liabilities	2,463	8,487	1,628	8,462
Income taxes	5,106	(412)	8,753	3,392
Changes in other long-term assets	2	(3)	-	(1)
Changes in other long-term liabilities	(152)	123	(22)	203
Reclamation paid	-	-	(35)	-
Income taxes paid	(346)	(87)	(2,930)	(1,339)
Interest received	10	10	23	25
Net cash provided by operating activities	19,503	7,696	57,088	36,209
Investing activities				
Expenditures on mineral properties, plant and equipment	(10,689)	(9,542)	(40,552)	(29,662)
Other	2	22	244	136
Net cash used in investing activities	(10,687)	(9,520)	(40,308)	(29,526)
Financing activities				
Proceeds from debt	-	1,000	1,000	12,000
Repayment of debt	-	(1,000)	-	(12,000)
Principal elements of lease payments	(74)	-	(113)	-
Debt financing and transaction costs	-	(77)	-	(372)
Proceeds from exercise of stock options	-	-	87	-
Proceeds from settlement of derivatives (Note 13)	206	-	722	9
Proceeds from issuance of flow-through shares (Note 8(b))	2,834	-	2,834	-
Interest paid	(223)	(144)	(724)	(435)
Net cash provided by (used in) financing activities	2,743	(221)	3,806	(798)
Effects of exchange rate changes on cash and cash equivalents	144	(125)	(409)	615
Increase (decrease) in cash and cash equivalents	11,703	(2,170)	20,177	6,500
Cash and cash equivalents, beginning of period	23,852	22,730	15,378	14,060
Cash and cash equivalents, end of period	$ 35,555	$ 20,560	$ 35,555	$ 20,560

Supplemental cash flow information (Note 10)

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

ARGONAUT GOLD INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the nine months ended September 30, 2019 and 2018
(Unaudited and expressed in thousands of United States dollars)

	Nine months ended September 30, 2019	Nine months ended September 30, 2018 (Note 2(a))
Share capital (Note 8(b))		
Balance at the beginning of the period	$ 786,200	$ 784,447
Issuance of common shares related to a community agreement	-	182
Stock options exercised	134	-
Restricted shares and restricted share units vested, net of shares withheld to satisfy tax withholding	1,084	1,568
Issuance of flow-through shares	1,986	-
Balance at the end of the period	789,404	786,197
Contributed surplus		
Balance at the beginning of the period	17,137	16,100
Stock options exercised	(47)	-
Restricted shares and restricted share units vested	(1,367)	(1,568)
Share-based compensation	2,254	2,076
Balance at the end of the period	17,977	16,608
Deficit		
Balance at the beginning of the period	(98,965)	(91,344)
Net income for the period	14,367	9,924
Balance at the end of the period	(84,598)	(81,420)
Accumulated other comprehensive loss		
Balance at the beginning of the period	(95,347)	(76,757)
Other comprehensive income (loss)	6,378	(6,992)
Balance at the end of the period	(88,969)	(83,749)
Total shareholders' equity	$ 633,814	$ 637,636

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

1 NATURE OF OPERATIONS

Argonaut Gold Inc. (the "Company" or "Argonaut") is a Canadian public company listed on the Toronto Stock Exchange and engaged in gold mining, mine development and mineral exploration activities at gold-bearing mineral properties in North America. As at September 30, 2019, the Company owned the producing El Castillo and San Agustin mines (which together form the El Castillo mining complex) in the State of Durango, Mexico, the producing La Colorada mine in the State of Sonora, Mexico, the advanced exploration stage San Antonio project in the State of Baja California Sur, Mexico, the advanced exploration stage Cerro del Gallo project in the State of Guanajuato, Mexico, the advanced exploration stage Magino project in the Province of Ontario, Canada, and several other exploration stage projects, all of which are located in North America.

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

2 BASIS OF PRESENTATION AND CONSOLIDATION

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as applicable to interim financial reports including International Accounting Standard ("IAS") 34, Interim Financial Reporting. Therefore, these interim condensed consolidated financial statements do not include all the information and note disclosures required by IFRS for annual financial statements and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2018, which have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB") and included in Part 1 of the Handbook of the Chartered Professional Accountants of Canada.

The accounting policies applied in these interim condensed consolidated financial statements are consistent with those applied in the most recent annual consolidated financial statements unless otherwise noted.

These interim condensed consolidated financial statements were approved by the Board of Directors of the Company on November 7, 2019.

a) New and amended standards adopted by the Company

The Company has adopted the following new standard in the annual period commencing January 1, 2019 and as a result, changed the relevant accounting policy for it. This change was made in accordance with the applicable transitional provisions.

IFRS 16, Leases ("IFRS 16")

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

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases, which had previously been classified as 'operating leases' under the principles of IAS 17, Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of January 1, 2019. The weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 4.77%. The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position as at December 31, 2018. Mineral properties, plant and equipment and lease liabilities each increased by $745 on January 1, 2019 on transition to

(Unaudited and expressed in thousands of United States dollars)

IFRS 16.

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

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

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

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

Under IFRS 16, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance expense. The finance expense is charged to the statement of income (loss) over the lease period. The right-of-use asset is depreciated over the shorter of the asset's useful life or the lease term on a straight-line basis.

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

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

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

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

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

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

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

For the leases accounting policy applied in the comparatives for the year ended December 31, 2018, refer to note 2(s) of the consolidated financial statements for the year ended December 31, 2018.

b) Recent accounting pronouncements

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

c) Significant estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may vary from those estimates due to inherent uncertainty or other factors. The Company regularly reviews its estimates. Revisions to estimates and the resulting effects on the carrying amounts of the assets and liabilities are accounted for prospectively. Key sources of estimation uncertainty that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities applied in the preparation of these unaudited interim condensed consolidated financial statements are consistent with those applied and disclosed in the annual consolidated financial statements for the year ended December 31, 2018.

Impairment of non-current assets

At each reporting date, the Company reviews its non-current assets to determine whether there are any indications of impairment. 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. As at September 30, 2019, management of the Company determined the continued weakness in the Company's share price during 2019, resulting in the Company's market capitalization being below the carrying value of net assets, constituted an impairment indicator. Therefore, the Company completed an impairment assessment for each of the Company's cash generating units ("CGUs" or "CGU") whereby the carrying value of the CGU, including acquisition cost, was compared to its recoverable amount using assumptions consistent with those used at December 31, 2018. Management's impairment evaluation did not result in the identification or reversal of an impairment loss as at September 30, 2019.

Work-in-process inventory / Production costs

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

During the three and nine months ended September 30, 2019, the Company recognized a non-cash impairment reversal on work-in-process inventory of $267 and $4,697, respectively (three and nine months ended September 30, 2018 - write down of $6,868) (see note 4).

(Unaudited and expressed in thousands of United States dollars)

3 RECEIVABLES

	September 30, 2019	December 31, 2018
Mexican value added tax receivable	$ 17,696	$ 20,482
Due from customer	1,271	2,932
Other receivables	961	232
	$ 19,928	$ 23,646

4 INVENTORIES

	September 30, 2019	December 31, 2018
Supplies	$ 10,988	$ 11,796
Work-in-process	84,951	75,452
Finished goods	661	1,921
	96,600	89,169
Non-current portion of inventory	(21,035)	(20,480)
	$ 75,565	$ 68,689

Cost of inventories recognized as expense in cost of sales for the three and nine months ended September 30, 2019 totalled $52,382 and $161,566, respectively (three and nine months ended September 30, 2018 - $44,628 and $116,381, respectively). During the three and nine months ended September 30, 2019, the Company recorded a non-cash impairment reversal of $267 and $4,697, respectively, at the El Castillo mine related to the net realizable value of the work-in-process inventory. The non-cash impairment reversal is primarily due to a revision in management's estimate of future production costs to convert the non-current work-in-process inventory into saleable form and expected timing of recoveries of the inventory. During the three and nine months ended September 30, 2018, the Company recorded a non-cash impairment write down of $4,346 at the El Castillo mine and $2,522 at the La Colorada mine related to the net realizable value of the work-in-process inventory, as a result of a decrease in the price of gold as at September 30, 2018. The reversals and write downs have been presented in a separate component of cost of sales in the statement of income (loss).

(Unaudited and expressed in thousands of United States dollars)

5 MINERAL PROPERTIES, PLANT AND EQUIPMENT

	Mineral properties[(1)(3)]	Exploration and evaluation assets	Plant and equipment[(1)(3)]	Total[(2)]
Cost				
Balance at December 31, 2018	$ 500,125	$ 370,308	$ 141,008	$ 1,011,441
Adjustment on adoption of IFRS 16 (Note 2)	271	-	474	745
Restated balance at January 1, 2019	500,396	370,308	141,482	1,012,186
Additions	22,745	6,743	11,106	40,594
Disposals	-	-	(3,209)	(3,209)
Adjustment on currency translation	-	7,288	-	7,288
Balance at September 30, 2019	523,141	384,339	149,379	1,056,859
Accumulated depreciation, depletion, amortization and impairment				
Balance at January 1, 2019	354,539	-	100,848	455,387
Additions	28,573	-	7,806	36,379
Disposals	-	-	(3,199)	(3,199)
Balance at September 30, 2019	383,112	-	105,455	488,567
Net book value at September 30, 2019	$ 140,029	$ 384,339	$ 43,924	$ 568,292
Cost				
Balance at January 1, 2018	$ 474,033	$ 384,166	$ 139,202	$ 997,401
Additions	26,092	7,159	6,254	39,505
Disposals	-	(62)	(4,446)	(4,508)
Adjustment on currency translation	-	(20,955)	(2)	(20,957)
Balance at December 31, 2018	500,125	370,308	141,008	1,011,441
Accumulated depreciation, depletion, amortization and impairment				
Balance at January 1, 2018	319,012	-	98,994	418,006
Additions	32,267	-	7,489	39,756
Disposals	-	-	(4,386)	(4,386)
Impairment (reversal)[(4)]	3,260	-	(1,249)	2,011
Balance at December 31, 2018	354,539	-	100,848	455,387
Net book value at December 31, 2018	$ 145,586	$ 370,308	$ 40,160	$ 556,054

(1) As at September 30, 2019, plant and equipment includes $284 and mineral properties includes $104 of assets under construction primarily related to the El Castillo mining complex and the La Colorada mine (December 31, 2018 - $81 and $877, respectively, primarily related to the El Castillo mining complex), which were not subject to depreciation and depletion at the statement of financial position date.

(2) Certain mineral properties, plant and equipment are held as security on the Company's revolving credit facility (see note 7).

(3) During the nine months ended September 30, 2019, the Company recorded right-of-use asset additions of $225 and nil within plant and equipment and mineral properties, respectively, and depreciation on right-of-use assets of $162 and $33 within plant and equipment and mineral properties, respectively. As at September 30, 2019, the net book value of right-of-use assets was $537 and $238 within plant and equipment and mineral properties, respectively.

(4) As at December 31, 2018, the Company recognized a non-cash impairment of mineral properties, plant and equipment at El Castillo, as the carrying value of the CGU was above the recoverable amount, and a partial reversal of the non-cash impairment of mineral properties, plant and equipment at La Colorada recorded as at December 31, 2015, as the recoverable amount of the CGU was above the carrying value. For additional details, refer to note 24 of the consolidated financial statements for the year ended December 31, 2018.

(Unaudited and expressed in thousands of United States dollars)

6 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2019	December 31, 2018
Trade accounts payable	$ 24,519	$ 22,451
Accrued liabilities	11,210	12,337
	$ 35,729	$ 34,788

7 DEBT

The Company has an amended and restated credit agreement (the “Revolving Credit Facility” or “RCF”) with a syndicate of Canadian banks for an aggregate amount of $50,000 upon execution of the RCF in February 2018. The RCF matures on March 31, 2021 and has a $25,000 accordion feature, providing for total availability of up to $75,000 upon execution of the RCF in February 2018. The RCF is subject to eight commitment reductions of $3,125 per quarter, plus the ratable amount of any incremental commitment derived from the accordion, with reductions commencing on June 30, 2019 and extending through maturity. As at September 30, 2019, the aggregate amount available to draw on the RCF was $43,750 and the available accordion feature was $18,750. The RCF bears interest at the London Inter-bank Offered Rate (“LIBOR”) plus 2.25% to 3.25% on drawn amounts and 0.51% to 0.73% on undrawn amounts, based on the Company’s consolidated leverage ratio, as defined in the agreement.

The Company incurred transaction costs and upfront fees on closing of the original and amended RCF, which are being amortized over the term of the RCF. The RCF is secured by all of the Company’s assets and is subject to various covenants including those that require the Company to maintain certain tangible net worth and ratios for leverage and interest coverage. As at September 30, 2019, the Company was in compliance with these covenants.

As at September 30, 2019, the Company had utilized $14,000 of the RCF (December 31, 2018 - $13,000).

(Unaudited and expressed in thousands of United States dollars)

8 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, 2018	177,227,773	$	784,447
Issuance of common shares related to a community agreement	100,000		182
Restricted share units issued to directors	131,594		258
Restricted shares issued to employees - vested(1)	-		637
Restricted share units issued to employees, net of shares withheld(2)	343,544		676
Balance at December 31, 2018	177,802,911		786,200
Restricted share units issued to directors	137,738		175
Restricted shares issued to employees - vested, net of shares withheld(1)(2)	(72,448)		263
Restricted share units issued to employees, net of shares withheld(2)	332,975		646
Issuance of flow-through shares	1,176,500		1,986
Stock options exercised (Note 8(c))	105,949		134
Balance at September 30, 2019	179,483,625	$	789,404

(1) During the nine months ended September 30, 2019, 301,382 restricted shares granted to employees vested (year ended December 31, 2018 - 445,095). All of these restricted shares were issued in prior years.

(2) During the nine months ended September 30, 2019, 72,448 and 139,443 vested restricted shares and restricted share units, respectively, were withheld to satisfy tax withholding requirements under the Company's net settlement feature for vested restricted shares and restricted share units (year ended December 31, 2018 - nil and 2,047, respectively).

Flow-through common shares

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

(c) Share-based compensation

The Company has established the Share Incentive Plan, as amended, which was adopted by the Board of Directors on February 12, 2010, was approved by shareholders in 2010 and was re-approved by shareholders on May 1, 2018. 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") and any other share-based compensation arrangements is 7.25% of the total common shares issued and outstanding.

(Unaudited and expressed in thousands of United States dollars)

Stock options

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

The following table summarizes information relating to stock options outstanding and exercisable at September 30, 2019:

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	6.35	$ 1.10	1,318,483	$ 1.10
1.32 - 2.48	1,341,895	8.08	2.15	557,125	2.44
2.49 - 4.00	860,510	5.60	2.67	727,006	2.70
4.01 - 7.00	358,353	3.49	4.71	358,353	4.71
7.01 - 10.35	421,097	3.11	8.75	421,097	8.75
$ 1.10 - 10.35	4,300,338	6.18	$ 2.79	3,382,064	$ 3.00

The following table summarizes stock option activity for the Company:

	Options	Weighted average exercise price (CA$)
Outstanding at January 1, 2018	3,916,985	$ 2.96
Granted	151,815	2.49
Forfeited	(57,387)	2.43
Outstanding at December 31, 2018	4,011,413	2.95
Granted	609,572	1.70
Exercised	(105,949)	1.10
Forfeited	(214,698)	3.56
Outstanding at September 30, 2019	4,300,338	$ 2.79

The weighted average share price at the time of exercise for the nine months ended September 30, 2019 was CA$1.75 per share. The total share-based compensation expense related to stock options granted by the Company for the three and nine months ended September 30, 2019 was $99 and $284, respectively (three and nine months ended September 30, 2018 - $121 and $395, respectively). As at September 30, 2019, there was $272 of unamortized stock-based compensation expense related to stock options granted (December 31, 2018 - $188).

(Unaudited and expressed in thousands of United States dollars)

The following weighted average assumptions were used in computing the fair value of stock options granted during the nine months ended September 30:

		2019		2018
Weighted average share price	CA$	1.70	CA$	2.49
Expected dividend yield		Nil		Nil
Expected volatility		65.6%		68.3%
Risk-free interest rate		1.8%		2.1%
Estimated forfeiture rate		8.5%		8.0%
Expected life		5 years		5 years
Weighted average fair value per stock option granted	CA$	0.95	CA$	1.44

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

Restricted shares and restricted share units

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

	Restricted shares and RSUs		Weighted average fair value (CA$)
Outstanding at January 1, 2018	1,387,822	$	1.91
Granted[(1)]	1,143,511		2.50
Vested[(2)]	(922,280)		2.07
Forfeited[(3)]	(76,380)		2.37
Outstanding at December 31, 2018	1,532,673		2.23
Granted[(1)]	1,609,512		1.68
Vested[(2)]	(911,538)		1.93
Forfeited[(3)]	(143,871)		1.98
Outstanding at September 30, 2019	2,086,776	$	1.96

[(1)] The RSUs granted during the nine months ended September 30, 2019 include 1,471,774 RSUs granted to employees (year ended December 31, 2018 - 1,011,917) and 137,738 RSUs granted to directors (year ended December 31, 2018 - 131,594) that will be issued once the shares vest according to the terms below.

[(2)] The restricted shares and RSUs vested during the nine months ended September 30, 2019 include 301,382 restricted shares granted to employees (year ended December 31, 2018 - 445,095), 472,418 RSUs granted to employees (year ended December 31, 2018 - 345,591), and 137,738 RSUs granted to directors (year ended December 31, 2018 - 131,594).

[(3)] The restricted shares and RSUs forfeited during the nine months ended September 30, 2019 include 143,871 RSUs (year ended December 31, 2018 - 76,380).

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 restricted shares and RSUs in the above table refer to restricted shares and RSUs granted but not yet vested. The total share-based compensation expense related to restricted shares and RSUs for the three and nine months ended September 30, 2019 was $402 and $1,298, respectively (three and nine months ended September 30, 2018 - $378 and $1,347, respectively). As at September 30, 2019, there was $1,253 of unamortized stock-based compensation expense related to restricted shares and RSUs (December 31, 2018 - $789).

(Unaudited and expressed in thousands of United States dollars)

During 2018, the Company adopted a net withholding settlement feature for vested restricted shares and RSUs, where a portion of the vested restricted shares and 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.

Performance share units

The following table summarizes the PSU activity for the Company:

	PSUs		Weighted average fair value (CA$)
Outstanding at January 1, 2018	-	$	-
Granted	776,668		3.07
Forfeited	(40,161)		3.07
Outstanding at December 31, 2018	736,507		3.07
Granted	967,720		2.11
Forfeited	(33,839)		3.07
Outstanding at September 30, 2019	1,670,388	$	2.51

The PSUs are subject to certain vesting requirements and each years' grant vests at the end of three years. The vesting requirements are based on certain performance criteria over the vesting period established by the Company. The number of units that vest is determined by multiplying the number of units granted to the participant by an adjustment factor, which ranges from 0 to 2.0. The total share-based compensation expense related to PSUs for the three and nine months ended September 30, 2019 was $254 and $672, respectively (three and nine months ended September 30, 2018 - $134 and $334, respectively). As at September 30, 2019, there was $1,680 of unamortized stock-based compensation expense related to PSUs (December 31, 2018 - $1,039).

(Unaudited and expressed in thousands of United States dollars)

9 SHARES OUTSTANDING

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Basic weighted average shares outstanding	178,561,364	177,795,549	178,279,297	177,692,126
Weighted average shares dilution adjustments:[1][2]				
Stock options	748,620	-	601,050	732,354
Restricted share units	1,382,865	-	1,191,543	579,833
Performance share units	577,370	-	334,177	-
Diluted weighted average shares outstanding	181,270,219	177,795,549	180,406,067	179,004,313

[1] Impact of dilutive stock options and other share-based compensation arrangements was determined using the Company's average share price for the three and nine months ended September 30, 2019 of CA$2.34 and CA$1.94, respectively (nine months ended September 30, 2018 - CA$2.28). During the three and nine months ended September 30, 2019 and the nine months ended September 30, 2018, certain stock options and other share-based compensation arrangements were excluded from the calculation of diluted earnings per share due to the assumed exercise prices being greater than the average market price.

[2] As a result of the net loss incurred during the three months ended September 30, 2018, stock options and other share-based compensation arrangements have been excluded from the calculation of diluted loss per share as they were anti-dilutive.

10 SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Increase in expenditures on mineral properties, plant and equipment related to a decrease in accounts payable and accrued liabilities	$ 1,832	$ 599	$ 1,125	$ 670
Fair value of common shares issued related to a community agreement capitalized as mineral property additions	$ -	$ -	$ -	$ 182
Fair value of restricted shares and restricted share units allocated from contributed surplus to share capital upon issuance	$ 8	$ 19	$ 1,084	$ 1,568

(Unaudited and expressed in thousands of United States dollars)

11 SEGMENT INFORMATION

Operating segments are those operations whose operating results are reviewed by the chief operating decision maker (the Chief Executive Officer) to make decisions about resources to be allocated to the segments and assess their performance, provided those operations pass certain quantitative thresholds. In order to determine if operating segments shall be aggregated, management reviews various factors, including economic characteristics, nature of their products, production process, regulatory environment, geographical location and managerial structure. After aggregation criteria have been considered, operations whose revenues, earnings or assets exceed 10% of the total consolidated revenues, earnings or assets are considered to be reportable segments. Early-stage exploration and other operations, including Cerro del Gallo, are reported in the Corporate and other segment. The producing El Castillo and San Agustin mines have been aggregated into the El Castillo mining complex reportable segment. The Company operates in the mining industry and its principal product is gold. During the nine months ended September 30, 2019, sales were to two customers (nine months ended September 30, 2018 - three customers) and were recognized at a point in time. The Company's revenue is generated on the sale of product originating from Mexico. The Company's significant mineral properties are located in Canada (Magino) and Mexico (El Castillo mining complex, La Colorada, and San Antonio). The following tables summarize segment information of the Company:

	El Castillo mining complex	La Colorada	San Antonio	Magino	Corporate and other	Total
Three months ended September 30, 2019						
Revenue	$ 45,791	$ 21,054	$ -	$ -	$ -	$ 66,845
Production costs	29,829	11,642	-	-	-	41,471
Depreciation, depletion and amortization	7,148	4,030	-	-	-	11,178
Reversal of inventory write down	(267)	-	-	-	-	(267)
Total cost of sales	36,710	15,672	-	-	-	52,382
Gross profit	9,081	5,382	-	-	-	14,463
Exploration expenses	56	60	-	-	22	138
General and administrative expenses	738	444	-	-	2,189	3,371
Income (loss) from operations	$ 8,287	$ 4,878	$ -	$ -	$ (2,211)	$ 10,954
Capital expenditures	$ 3,022	$ 2,352	$ 429	$ 1,455	$ 1,882	$ 9,140
Nine months ended September 30, 2019						
Revenue	$ 138,403	$ 58,352	$ -	$ -	$ -	$ 196,755
Production costs	94,474	38,534	-	-	-	133,008
Depreciation, depletion and amortization	22,883	10,372	-	-	-	33,255
Reversal of inventory write down	(4,697)	-	-	-	-	(4,697)
Total cost of sales	112,660	48,906	-	-	-	161,566
Gross profit	25,743	9,446	-	-	-	35,189
Exploration expenses	56	318	-	37	33	444
General and administrative expenses	1,759	1,166	-	-	7,597	10,522
Income (loss) from operations	$ 23,928	$ 7,962	$ -	$ (37)	$ (7,630)	$ 24,223
Capital expenditures	$ 21,142	$ 10,674	$ 1,408	$ 3,743	$ 3,627	$ 40,594
September 30, 2019						
Mineral properties, plant and equipment	$ 114,326	$ 60,815	$ 115,255	$ 252,144	$ 25,752	$ 568,292
Total assets	$ 220,407	$ 99,300	$ 115,627	$ 254,457	$ 40,546	$ 730,337

(Unaudited and expressed in thousands of United States dollars)

	El Castillo mining complex	La Colorada	San Antonio	Magino	Corporate and other	Total
Three months ended September 30, 2018						
Revenue	$ 32,148	$ 9,162	$ -	$ -	$ -	$ 41,310
Production costs	21,190	8,660	-	-	-	29,850
Depreciation, depletion and amortization	6,605	1,305	-	-	-	7,910
Inventory write down	4,346	2,522	-	-	-	6,868
Total cost of sales	32,141	12,487	-	-	-	44,628
Gross profit (loss)	7	(3,325)	-	-	-	(3,318)
Exploration expenses	-	138	-	-	-	138
General and administrative expenses	569	384	-	-	1,754	2,707
Loss from operations	$ (562)	$ (3,847)	$ -	$ -	$ (1,754)	$ (6,163)
Capital expenditures	$ 6,090	$ 546	$ 540	$ 758	$ 1,352	$ 9,286
Nine months ended September 30, 2018						
Revenue	$ 97,141	$ 47,286	$ -	$ -	$ -	$ 144,427
Production costs	53,179	31,780	-	-	-	84,959
Depreciation, depletion and amortization	17,946	6,608	-	-	-	24,554
Inventory write down	4,346	2,522	-	-	-	6,868
Total cost of sales	75,471	40,910	-	-	-	116,381
Gross profit	21,670	6,376	-	-	-	28,046
Exploration expenses	-	391	-	-	-	391
General and administrative expenses	1,679	1,254	-	-	6,668	9,601
Income (loss) from operations	$ 19,991	$ 4,731	$ -	$ -	$ (6,668)	$ 18,054
Capital expenditures	$ 18,051	$ 4,187	$ 1,135	$ 2,612	$ 3,378	$ 29,363
December 31, 2018						
Mineral properties, plant and equipment	$ 113,960	$ 63,643	$ 113,847	$ 241,120	$ 23,484	$ 556,054
Total assets	$ 214,049	$ 92,704	$ 114,206	$ 241,433	$ 32,124	$ 694,516

12 COMMITMENTS AND CONTINGENCIES

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

The Company understands that refiner Republic Metals Corporation ("Republic") filed for protection under chapter 11 of the United States Bankruptcy Code on November 2, 2018 (the "Petition Date") in the United States Bankruptcy Court for the Southern District of New York (the "Court"). Republic processed material from certain of the Company's properties in the past and, as of the Petition Date, had in its possession approximately 4,600 and 13,600 ounces of the Company's gold and silver, respectively. The Company engaged counsel to assert its legal right for the return of its material and otherwise protect its rights in Republic's bankruptcy case. In August 2019, the Company reached an agreement with Republic, which was approved by the Court in September 2019. Pursuant to that agreement, the Company received $625 and allowed claims against Republic in the amount of $5,537 (the "Allowed Claims") to proceed. It is not possible at this time to accurately assess the size of the recovery on the Company's Allowed Claims nor the length of time it will take to receive such recovery.

(Unaudited and expressed in thousands of United States dollars)

13 FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, 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:

		September 30, 2019		December 31, 2018
Financial assets at amortized cost[1]	$	37,666	$	18,500
Financial assets at fair value through profit or loss[2]	$	1,026	$	510
Financial liabilities at amortized cost[3]	$	(49,159)	$	(47,987)
Financial liabilities at fair value through profit or loss[4]	$	(235)	$	-

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

[2] Financial assets at fair value through profit or loss include derivative assets.

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

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

As at September 30, 2019 and December 31, 2018, the carrying amounts of cash and cash equivalents, receivables, and accounts payable and accrued liabilities are considered to be reasonable approximations of their fair values due to the short-term nature of these instruments. As at September 30, 2019 and December 31, 2018, the carrying amounts of other liabilities and debt 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.

Derivative contracts

On September 25 and December 28, 2017 (together referred to as the "2018 foreign exchange contracts") and on November 13, 2018 (referred to as the "2019 foreign exchange contracts"), the Company entered into zero-cost collar contracts whereby it purchased a series of foreign exchange call option contracts and sold a series of foreign exchange put option contracts with equal and offsetting values at inception. These contracts were entered into to normalize operating expenses and capital expenditures to be incurred by the Company's Mexican operations as expressed in US dollar terms. The foreign exchange derivative contracts are classified as Level 2 in the fair value hierarchy.

(Unaudited and expressed in thousands of United States dollars)

The details of the foreign exchange contracts are as follows:

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

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

On August 23, 2019, the Company entered into zero-cost collar contracts whereby it purchased a series of gold put option contracts and sold a series of gold call option contracts with equal and offsetting values at inception (referred to as the "commodity contracts"). These commodity contracts were entered into to extend operations at the El Castillo mine. The commodity contracts are classified as Level 2 in the fair value hierarchy.

The details of the commodity contracts are as follows:

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

(1) The contracts are exercisable based on the average price for the month being below the strike price of the put or above the strike price of the call.

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

The resulting fair values of the outstanding derivative contracts at September 30, 2019 have been recognized, on a net basis, in derivative assets and derivative liabilities on the statement of financial position. As at September 30, 2019, foreign exchange contracts represent $99 of current derivative assets and commodity contracts represent $927 and $235 of derivative assets and derivative liabilities, respectively. These derivative instruments were not designated as hedges by the Company and are marked-to-market at the end of each reporting period with the mark-to-market adjustment recorded in the statement of income (loss).

(Unaudited and expressed in thousands of United States dollars)

Details are as follows:

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
2018 foreign exchange contracts				
Unrealized gains	$ -	$ 123	$ -	$ 593
Reversal of unrealized (gains) losses from prior period	-	36	-	(18)
Realized gains	-	-	-	9
2019 foreign exchange contracts				
Unrealized gains (losses)	(119)	-	149	-
Reversal of unrealized gains from prior period	(235)	-	(560)	-
Realized gains	206	-	722	-
Commodity contracts				
Unrealized gains	692	-	692	-
Net gains on derivatives	$ 544	$ 159	$ 1,003	$ 584