ARGONAUT GOLD

Interim Condensed Consolidated Financial Statements

**For the three and six months ended June 30, 2022**

(Unaudited and expressed in thousands of United States dollars)

**ARGONAUT GOLD INC.**

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**(Unaudited and expressed in thousands of United States dollars)**

| | | June 30, 2022 | | December 31, 2021 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current assets | | | | |
| Cash and cash equivalents | $ | 75,816 | $ | 199,235 |
| Receivables (Note 4) | | 28,249 | | 32,019 |
| Inventories (Note 5) | | 110,697 | | 101,514 |
| Prepaid income tax | | 1,091 | | 497 |
| Prepaid expenses and other | | 13,261 | | 7,020 |
| Marketable securities | | 94 | | 6,049 |
| | | 229,208 | | 346,334 |
| Non-current portion of inventory (Note 5) | | — | | 2,976 |
| Mineral properties, plant and equipment (Note 6) | | 1,062,081 | | 902,239 |
| Deferred income taxes | | 21,991 | | 13,010 |
| Reclamation deposits (Note 7) | | 2,761 | | 3,243 |
| Other assets | | 1,404 | | 1,525 |
| Total assets | $ | 1,317,445 | $ | 1,269,327 |
| **LIABILITIES** | | | | |
| Current liabilities | | | | |
| Accounts payable and accrued liabilities (Note 8) | $ | 119,388 | $ | 104,369 |
| Income taxes payable | | 10,969 | | 30,510 |
| Flow-through share premium (Note 11b) | | 1,870 | | 162 |
| Current portion of lease liabilities (Note 10) | | 19,739 | | 17,477 |
| Current portion of reclamation provision | | 13,447 | | 16,044 |
| Current portion of derivative liabilities (Note 17) | | — | | 1,258 |
| | | 165,413 | | 169,820 |
| Debt (Note 9) | | 126,627 | | 136,111 |
| Lease liabilities (Note 10) | | 37,988 | | 37,460 |
| Reclamation provision | | 85,498 | | 83,008 |
| Deferred income taxes | | 15,515 | | 6,317 |
| Other liabilities | | 5,611 | | 4,981 |
| Total liabilities | | 436,652 | | 437,697 |
| **SHAREHOLDERS' EQUITY** | | | | |
| Share capital (Note 11b) | | 1,067,963 | | 1,031,827 |
| Contributed surplus | | 20,152 | | 20,499 |
| Deficit | | (127,287) | | (151,317) |
| Accumulated other comprehensive loss | | (80,035) | | (69,379) |
| Total shareholders' equity | | 880,793 | | 831,630 |
| Total liabilities and shareholders' equity | $ | 1,317,445 | $ | 1,269,327 |

Commitments and contingencies (Note 16)
Events after the reporting period (Notes 9, 11)

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

**ARGONAUT GOLD INC.**
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

**For the three and six months ended June 30, 2022 and 2021**
**(Unaudited and expressed in thousands of United States dollars)**

| | Three months ended June 30, 2022 | Three months ended June 30, 2021 Re-presented (Note 3) | Six months ended June 30, 2022 | Six months ended June 30, 2021 Re-presented (Note 3) |
|---|---|---|---|---|
| Revenue | $ 111,405 | $ 120,194 | $ 217,207 | $ 225,461 |
| Cost of sales | | | | |
| Production costs | 74,943 | 61,241 | 141,732 | 123,536 |
| Depreciation, depletion and amortization | 16,666 | 18,881 | 34,197 | 36,451 |
| Inventory (reversal) write-down (Note 5) | (13) | 236 | (194) | (1,920) |
| **Total cost of sales** | 91,596 | 80,358 | 175,735 | 158,067 |
| **Gross profit** | 19,809 | 39,836 | 41,472 | 67,394 |
| Exploration expenses | 425 | 1,070 | 792 | 1,691 |
| General and administrative expenses | 4,571 | 3,705 | 9,592 | 8,471 |
| **Profit from operations** | 14,813 | 35,061 | 31,088 | 57,232 |
| Finance income | 255 | 469 | 346 | 725 |
| Finance expenses | (1,187) | (750) | (1,954) | (1,425) |
| Gain (loss) on derivatives (Note 17) | 12,754 | (6,502) | 10,291 | 12,306 |
| Other (expense) income (Note 13) | (2,673) | 2,918 | (4,573) | 1,840 |
| **Income before income taxes** | 23,962 | 31,196 | 35,198 | 70,678 |
| Current income tax expense | 6,308 | 12,907 | 14,430 | 22,545 |
| Deferred income tax recovery | (758) | (3,489) | (3,262) | (652) |
| **Net income for the period** | $ 18,412 | $ 21,778 | $ 24,030 | $ 48,785 |
| | | | | |
| **Earnings per share** | | | | |
| Basic and diluted | $ 0.06 | $ 0.07 | $ 0.07 | $ 0.16 |
| | | | | |
| **Weighted average number of common shares outstanding (Note 12)** | | | | |
| Basic | 332,786,743 | 310,318,903 | 325,416,876 | 304,934,741 |
| Diluted | 334,631,498 | 315,540,212 | 328,046,460 | 309,549,231 |

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

**ARGONAUT GOLD INC.**

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

**For the three and six months ended June 30, 2022 and 2021**
**(Unaudited and expressed in thousands of United States dollars)**

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| **Net income for the period** | $ 18,412 | $ 21,778 | $ 24,030 | $ 48,785 |
| **Other comprehensive income** | | | | |
| **Items that may be reclassified subsequently to net income** | | | | |
| Foreign currency translation differences | (20,483) | 6,552 | (10,656) | 11,184 |
| **Comprehensive income (loss) for the period** | $ (2,071) | $ 28,330 | $ 13,374 | $ 59,969 |

**ARGONAUT GOLD INC.**

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**For the three and six months ended June 30, 2022 and 2021**
**(Unaudited and expressed in thousands of United States dollars)**

| | Three months ended June 30, 2022 | Three months ended June 30, 2021 | Six months ended June 30, 2022 | Six months ended June 30, 2021 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Net income for the period | $ 18,412 | $ 21,778 | $ 24,030 | $ 48,785 |
| Items not affecting cash: | | | | |
| Depreciation, depletion and amortization | 16,737 | 18,956 | 34,338 | 36,603 |
| Gain on sale of net smelter return royalty | — | (2,250) | — | (2,250) |
| Gain on settlement of receivables | — | (1,751) | — | (1,751) |
| Share-based compensation | 813 | 712 | 2,092 | 2,242 |
| Net finance expense | 932 | 281 | 1,608 | 700 |
| Unrealized foreign exchange loss (gain) | 1,162 | 34 | 1,245 | (625) |
| Unrealized (gain) loss on derivatives | (13,525) | 5,335 | (12,060) | (14,445) |
| Deferred income taxes | 2,073 | (1,223) | 217 | 1,886 |
| Reduction of obligation to renounce flow-through exploration expenditures | (2,831) | (2,891) | (3,479) | (3,163) |
| Inventory (reversal) write-down (Note 5) | (13) | 236 | (194) | (1,920) |
| Loss on sale of marketable securities | — | — | 534 | — |
| Other | (510) | 60 | 67 | 919 |
| | 23,250 | 39,277 | 48,398 | 66,981 |
| Changes in non-cash operating working capital items | | | | |
| Receivables | (2,427) | (164) | 2,868 | 7 |
| Inventories | (1,737) | (6,549) | (9,371) | (9,702) |
| Prepaid expenses and other | (6,191) | 1,972 | (6,753) | (372) |
| Accounts payable and accrued liabilities | 7,496 | (1,588) | 7,623 | 2,533 |
| Income taxes | 4,297 | 13,090 | 12,459 | 22,353 |
| Changes in other non-current assets | (14) | 13 | 32 | 190 |
| Changes in other non-current liabilities | 47 | 489 | 430 | 597 |
| Reclamation paid | (3,051) | — | (5,426) | (221) |
| Income taxes paid | (8,590) | (4,874) | (33,227) | (14,658) |
| Interest received | 280 | 469 | 362 | 725 |
| Net cash provided by operating activities | 13,360 | 42,135 | 17,395 | 68,433 |
| **Investing activities** | | | | |
| Expenditures on mineral properties, plant and equipment | (96,757) | (57,638) | (172,250) | (96,052) |
| Proceeds from sale of net smelter return royalty | — | 1,225 | — | 1,225 |
| Cash received for receivables from acquisition | — | 5,000 | — | 5,000 |
| Proceeds from sale of marketable securities, net of transaction costs (Note 13) | — | — | 5,307 | — |
| Proceeds from disposal of equipment | 449 | 75 | 449 | 75 |
| Net cash used in investing activities | $ (96,308) | $ (51,338) | (166,494) | (89,752) |

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

**ARGONAUT GOLD INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**For the three and six months ended June 30, 2022 and 2021**
**(Unaudited and expressed in thousands of United States dollars)**

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| **Financing activities** | | | | |
| Proceeds from issuance of flow-through shares, net of share issuance costs (Note 11b) | — | (42) | 38,720 | 19,475 |
| Proceeds from issuance of common shares, net of share issuance costs (Note 11b) | — | (3) | — | 7,895 |
| Proceeds from exercise of stock options | 47 | 564 | 798 | 592 |
| Principal element of lease payments | (3,948) | (2,967) | (8,605) | (5,042) |
| Payments for settlement of derivatives (Note 17) | (1,325) | (739) | (2,020) | (2,357) |
| Interest paid | (2,895) | (2,290) | (4,170) | (2,968) |
| Net cash (used in) provided by financing activities | (8,121) | (5,477) | 24,723 | 17,595 |
| Effects of exchange rate changes on cash and cash equivalents | 807 | 3,357 | 957 | 5,560 |
| **(Decrease) increase in cash and cash equivalents** | (90,262) | (11,323) | (123,419) | 1,836 |
| Cash and cash equivalents, beginning of period | 166,078 | 227,347 | 199,235 | 214,188 |
| **Cash and cash equivalents, end of period** | $ 75,816 | $ 216,024 | $ 75,816 | $ 216,024 |

Supplemental cash flow information (Note 14)

**ARGONAUT GOLD INC.**

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

**For the three and six months ended June 30, 2022 and 2021**
**(Unaudited and expressed in thousands of United States dollars)**

| | Six months ended June 30, 2022 | Six months ended June 30, 2021 |
|---|---|---|
| **Share capital (Note 11b)** | | |
| Balance at the beginning of the period | $ 1,031,827 | $ 1,002,448 |
| Issuance of flow-through shares (Note 11b) | 33,533 | 16,025 |
| Issuance of common shares by way of private placement | — | 7,895 |
| Issuance of common shares related to community agreements | — | 1,590 |
| Issuance of common shares on exercise of Alio Replacement Options | — | 1,079 |
| Issuance of common shares on exercise of stock options | 1,205 | 225 |
| Restricted share units vested, net of shares withheld to satisfy tax withholding | 717 | 918 |
| Performance share units vested, net of shares withheld to satisfy tax withholding | 573 | 213 |
| Deferred share units released, net of shares withheld to satisfy tax withholding | 108 | — |
| Issuance of common shares for services provided at Magino | — | 142 |
| Balance at the end of the period | 1,067,963 | 1,030,535 |
| **Contributed surplus** | | |
| Balance at the beginning of the period | 20,499 | 20,913 |
| Stock options exercised | (407) | (712) |
| Restricted share units and performance share units vested | (1,897) | (1,879) |
| Share-based compensation | 2,092 | 2,242 |
| Deferred share units released | (135) | — |
| Balance at the end of the period | 20,152 | 20,564 |
| **Deficit** | | |
| Balance at the beginning of the period | (151,317) | (177,846) |
| Net income for the period | 24,030 | 48,785 |
| Balance at the end of the period | (127,287) | (129,061) |
| **Accumulated other comprehensive loss** | | |
| Balance at the beginning of the period | (69,379) | (73,337) |
| Other comprehensive (loss) income | (10,656) | 11,184 |
| Balance at the end of the period | (80,035) | (62,153) |
| **Total shareholders' equity** | $ 880,793 | $ 859,885 |

## 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 June 30, 2022, 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.

The Company estimates that the updated estimated cost to completion ("EAC") for the Magino construction project in Canadian dollars ("CA$") is CA$920,000. At June 30, 2022, the Company had committed approximately CA$688,100, had incurred approximately CA$510,100, and estimates the project is 54.8% complete. The Company completed a CA$195,300 equity offering subsequent to the period end (note 11b) and expects to close the $250,000 of debt facilities, that are the subject of a binding commitment letter received from a syndicate of lenders in June 2022, in the third quarter 2022 ("Q3") (note 9).

The Ana Paula project was a disposal group classified as assets held for sale as at June 30, 2021 and its results from operations were originally presented as discontinued operations for the three and six months ended June 30, 2021. At December 31, 2021, Ana Paula was no longer considered a disposal group held for sale and its results from operations were re-presented as part of continuing operations for all reporting periods within the year ended December 31, 2021 (note 3).

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 the year ended December 31, 2021 and the three and six months ended June 30, 2022, as an indirect result of the COVID-19 pandemic and geopolitical factors, the Company was impacted by increased inflationary pressures, and cost increases to its construction capital estimate for the Magino project.

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

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("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, 2021, which have been prepared in accordance with IFRS.

The accounting policies applied in these interim condensed consolidated financial statements are consistent with those applied in the most recent annual consolidated financial statements for the year ended December 31, 2021.

These interim condensed consolidated financial statements were approved by the Board of Directors of the Company on August 10, 2022.

a) Recent accounting pronouncements

In October 2020, the International Accounting Standards Board 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 board 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 twelve 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 board 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.

In May 2021, the International Accounting Standards Board 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.

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.

b) 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 interim condensed consolidated financial statements are consistent with those applied and disclosed in the annual consolidated financial statements for the year ended December 31, 2021.

*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 cash-generating unit ("CGU") 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).

Management's impairment evaluation did not result in the identification of any impairment indicators or impairment reversal indicators as at June 30, 2022, except for the construction stage Magino project CGU. As at June 30, 2022, management of the Company determined the updated EAC for the Magino construction project constituted an impairment indicator. Therefore, the Company completed an impairment assessment for the Magino 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, 2021, except for the updated capital costs and gold price assumptions.

Capital costs assumptions were updated to the most updated recent EAC of CA$920,000 and gold price assumptions were based on the most recent consensus prices of $1,800 per ounce for the short-term, and $1,650 per ounce for the long-term assumptions. Additionally, the Company took into account the value of the recently entered into monthly unsecured forward gold sales contracts covering 300,000 ounces of gold at a price of $1,860 per ounce (referred to as the "Financing Gold Forwards") (note 16). Management's impairment evaluation did not result in the identification of an impairment as at June 30, 2022. The inability to achieve Magino's operating and capital cost estimates, ramp up of operations, ore dilution, change to its mine plan, and gold price are key factors that may trigger a future impairment.

**(Unaudited and expressed in thousands of United States dollars, except where noted)**

The table below indicates the gold price per ounce, the discount rate, the construction capital, the percentage change in operating costs, and the in-situ value per ounce assumption which would cause the carrying value of the Magino project CGU 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[1] | 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 |
|---|---|---|---|---|---|
| Magino project | $ 1,618 | 6.69% | $ 751,780 | 4.30% | $ 59 |

[1] The construction capital required for the recoverable amount to equal the carrying amount is $751,780 or CA$963,830 at an exchange rate of $0.78 per CA$1.00.

*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.

## 3 ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

The Ana Paula project was previously classified as a disposal group held for sale as at June 30, 2021 and as discontinued operations for the three and six months ended June 30, 2021.

During the three months ended December 31, 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. 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 June 30, 2022 and December 31, 2021, and as a discontinued operation for the three and six months ended June 30, 2022 and for the year ended December 31, 2021.

Upon reclassification of the Ana Paula project to continuing operations for 2021, the Company assessed the recoverable value of the Ana Paula project segment for impairment, and recognized a non-cash impairment write-down of $7,330 during the year ended December 31, 2021.

At June 30, 2022 and 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 interim condensed consolidated statements of financial position. Expenses related to the Ana Paula project incurred during the three and six months ended June 30, 2022 and 2021 have been presented as a part of continuing operations within the interim condensed consolidated statements of income.

Expenses of $1,696 and $2,483 related to the Ana Paula project disposal group incurred during the three and six months ended June 30, 2021, respectively, have been re-presented as a part of continuing operations within the interim condensed consolidated statements of income, for comparative purposes. There is no impact on the presentation in the interim condensed consolidated statements of cash flows.

(Unaudited and expressed in thousands of United States dollars, except where noted)

## 4 RECEIVABLES

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Mexican value added tax receivable | $ 16,833 | $ 18,958 |
| Canadian value added tax receivable | 11,259 | 11,037 |
| Due from customer | 67 | 1,687 |
| Other receivables | 90 | 337 |
| | $ 28,249 | $ 32,019 |

## 5 INVENTORIES

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Supplies | $ 20,741 | $ 17,173 |
| Work-in-process | 88,603 | 86,243 |
| Finished goods | 1,353 | 1,074 |
| | 110,697 | 104,490 |
| Non-current portion of work-in-process inventory | — | (2,976) |
| | $ 110,697 | $ 101,514 |

Cost of inventories recognized as an expense in cost of sales for the three and six months ended June 30, 2022 totaled $91,596 and $175,735, respectively (three and six months ended June 30, 2021 - $80,358 and $158,067, respectively). During the three and six months ended June 30, 2022, the Company recognized a non-cash impairment reversal of $13 and $194, respectively (three and six months ended June 30, 2021 - $236 and $1,920, respectively) at the El Castillo mining complex related to the net realizable value of the work-in-process inventory.

The recognition is 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 interim condensed consolidated statements of income.

(Unaudited and expressed in thousands of United States dollars, except where noted)

## 6 MINERAL PROPERTIES, PLANT AND EQUIPMENT

| | Exploration and evaluation assets | Assets under construction (1) | Mineral properties (1)(2)(3) | Plant and equipment (1)(2) | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance at January 1, 2022 | $ 167,300 | $ 593,843 | $ 678,384 | $ 251,117 | $ 1,690,644 |
| Additions | 525 | 169,338 | 14,267 | 21,300 | 205,430 |
| Disposals | — | — | — | (298) | (298) |
| Adjustment on currency translation | — | (11,585) | — | (557) | (12,142) |
| Balance at June 30, 2022 | 167,825 | 751,596 | 692,651 | 271,562 | 1,883,634 |
| **Accumulated depreciation, depletion, amortization and impairment** | | | | | |
| Balance at January 1, 2022 | 118,364 | — | 536,514 | 133,527 | 788,405 |
| Additions | — | — | 20,257 | 13,273 | 33,530 |
| Disposals | — | — | — | (285) | (285) |
| Adjustment on currency translation | — | — | — | (97) | (97) |
| Balance at June 30, 2022 | 118,364 | — | 556,771 | 146,418 | 821,553 |
| Net book value at June 30, 2022 | $ 49,461 | $ 751,596 | $ 135,880 | $ 125,144 | $ 1,062,081 |
| **Cost** | | | | | |
| Balance at January 1, 2021 | $ 134,299 | $ 300,335 | $ 651,787 | $ 201,885 | $ 1,288,306 |
| Additions | 1,584 | 295,338 | 29,156 | 51,221 | 377,299 |
| Transfer | — | — | (2,559) | 2,559 | — |
| Option proceeds | (606) | — | — | — | (606) |
| Impairment reversal | 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 |
| **Accumulated depreciation, depletion, amortization and impairment** | | | | | |
| 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 | 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 |

(Unaudited and expressed in thousands of United States dollars, except where noted)

(1) During the six months ended June 30, 2022, the Company recorded right-of-use asset additions of $13,190 within plant and equipment (year ended December 31, 2021 - $35,153) and $nil within mineral properties (year ended December 31, 2021 - $49) (note 10). During the three and six months ended June 30, 2022, total depreciation on right-of-use assets within plant and equipment was $2,946 and $5,665, respectively (three and six months ended June 30, 2021 - $1,354 and $2,402, respectively). 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 10). During the three and six months ended June 30, 2022, total depreciation on right-of-use assets within mineral properties was $15 and $30, respectively (three and six months ended June 30, 2021 - $10 and $21, respectively). As at June 30, 2022, the net book value of right-of-use assets was $69,783 and $142 within plant and equipment and mineral properties, respectively (December 31, 2021 - $62,254 and $172, respectively).

(2) As at June 30, 2022, plant and equipment includes $6,472 and mineral properties includes $3,341 of mine development costs, primarily related to the El Castillo mining complex, the La Colorada mine and the Florida Canyon mine (December 31, 2021 - $6,482 and $2,031, respectively), which were not subject to depreciation and depletion at the statement of financial position date.

(3) During the six months ended June 30, 2022, the Company capitalized $7,979 (six months ended June 30, 2021 - $7,385) of deferred stripping costs to mineral properties. The depreciation expense related to deferred stripping for the three and six months ended June 30, 2022 was $2,344 and $4,821, respectively (three and six months ended June 30, 2021 - $4,820 and $8,728, respectively). Included in the mineral properties balance at June 30, 2022 is $9,744 and $13,555 (December 31, 2021 - $10,576 and $10,248) related to deferred stripping costs at the El Castillo mine and the La Colorada mine, respectively.

## 7 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.

At June 30, 2022, the reclamation deposits are carried at fair value of $2,761 (December 31, 2021 - $3,243) and consist of $625 of cash, $236 of fixed-income funds, and $1,900 of equity funds. During the three and six months ended June 30, 2022, interest income was $6 and $15, respectively (three and six months ended June 30, 2021 - $41 and $75, respectively) and the Company recorded a loss on funds of $371 and $497, respectively (three and six months ended June 30, 2021 - $233 and $217, respectively).

## 8 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Trade accounts payable | $ 58,699 | $ 62,839 |
| Accrued liabilities | 60,689 | 41,530 |
| | $ 119,388 | $ 104,369 |

At June 30, 2022, accounts payable and accrued liabilities included $53,653 (December 31, 2021 - $45,234) related to mineral properties, plant and equipment additions. At June 30, 2022 and December 31, 2021, accrued liabilities also included $1,329 and $222, respectively, of accrued interest on convertible debentures (note 9).

**(Unaudited and expressed in thousands of United States dollars, except where noted)**

## 9 DEBT

*Overview*

| | | June 30, 2022 | | December 31, 2021 |
|---|---|---|---|---|
| Revolving credit facility | $ | 80,000 | $ | 80,000 |
| Convertible debentures | | | | |
| Debt liability | | 45,967 | | 44,650 |
| Derivative liability | | 660 | | 11,461 |
| Debt | $ | 126,627 | $ | 136,111 |

*Committed credit facilities*

In June 2022, the Company signed a binding commitment letter with a syndicate of lenders for the financing of a six-year, $200,000 term loan credit facility and a three-year, $50,000 revolving credit facility (referred to as the "Committed Credit Facilities"), for a total Committed Credit Facilities limit of $250,000. The proceeds of the Committed Credit Facilities are to be used to refinance the Company's existing debt, in the form of the Amended Revolving Credit Facility (“ARCF”), and for general corporate purposes, including ongoing development and expansion capital of the Magino project and other producing assets. Closing is expected in Q3 2022.

The term loan credit facility is to be repaid in 20 quarterly principal repayments equal to 5.0% of the outstanding balance commencing on September 30, 2023, with no penalty for voluntary prepayment. The Committed Credit Facilities will bear an interest rate of 1.25% per annum on the committed but undrawn portions, and a rate on drawn portions equal to the Adjusted Term Secured Overnight Financing Rate plus 6.0% per annum. Upon closing, the Committed Credit Facilities will have similar security provisions as the ARCF. From the Committed Credit Facilities, $80,000 will be available at closing to refinance existing secured debt, with additional drawdowns available following satisfaction of conditions precedent.

The following conditions precedent must be put in place by the Company prior to closing of the Committed Credit Facilities, which include, without limitation:

- mandatory gold hedging by the Company covering 300,000 ounces between the years 2023 and 2027 (note 16);
- Canadian dollar to US dollar foreign exchange hedging program by the Company covering the period up to project completion and rolling 12-month coverage thereafter;
- a minimum of $150,000 (net of fees and expenses) in equity to be raised, of which $123,000 million must be raised and spent prior to initial drawdown (note 11b);
- independent technical engineers and the lenders to complete a detailed review of:
    - updated cost to complete estimate and project schedule in respect of the Magino project;
    - grade control drilling plan and master blasting plan for the Magino project;
    - Magino project operating costs; and
    - other information reasonably requested by the independent technical engineers;
- evidence that sufficient funding is available to achieve project completion for the Magino project; and
- other customary conditions precedent.

**(Unaudited and expressed in thousands of United States dollars, except where noted)**

*Revolving credit facility*

Effective October 2020, the Company has a $100,000 ARCF with a syndicate of banks. The ARCF includes a $25,000 accordion feature. 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.

The ARCF was not utilized by the Company until it drew $80,000 in December 2021, which remained drawn and outstanding as at June 30, 2022 (December 31, 2021 - $80,000). During the six months ended June 30, 2022, the Company exercised the accordion feature of the ARCF, making available the full $25,000 accordion. 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 June 30, 2022, the Company was in compliance with these covenants. As of June 30, 2022, there were letters of credit, totaling $4,904, which were secured by the ARCF.

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 |

The ARCF is expected to be settled and supplanted by the Committed Credit Facilities upon its closing.

*Convertible debentures*

On October 30, 2020, the Company issued unsecured convertible debentures with an aggregate amount of $57,500 (the "Debentures"). At June 30, 2022, the Company had $57,480 (December 31, 2021 - $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 used the net proceeds of the Debentures for the advancement of the Magino project.

**(Unaudited and expressed in thousands of United States dollars, except where noted)**

On June 30, 2022 and December 31, 2021, the fair value of the derivative liability was estimated at $660 and $11,461, respectively. The value was determined using the Partial Differential Equation model with the following assumptions:

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Share price | CA $ 0.45 | CA $ 2.40 |
| US$-CA$ exchange rate | 0.7768 | 0.7917 |
| Translated US$ share price | $ 0.35 | $ 1.90 |
| Volatility | 71.92 % | 46.66 % |
| Risk free rate | 3.09 % | 1.29 % |
| Credit spread | 6.68 % | 8.69 % |
| All-in rate | 9.77 % | 9.98 % |

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

| | Debt liability | Derivative liability | Total |
|---|---|---|---|
| Balance at December 31, 2020 | $ 42,205 | $ 16,101 | $ 58,306 |
| Accrued interest and accretion of debt liability component | 5,563 | — | 5,563 |
| 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 |
| Accrued interest and accretion of debt liability component | 2,646 | — | 2,646 |
| Change in fair value of derivative liability component | — | (10,801) | (10,801) |
| Accrued interest recorded in accrued liabilities - current | (1,329) | — | (1,329) |
| Balance at June 30, 2022 | $ 45,967 | $ 660 | $ 46,627 |

During the three and six months ended June 30, 2022, capitalized interest and accretion expense on the Debentures was $1,340 and $2,646, respectively (three and six months ended June 30, 2021 - $1,265 and $2,500, respectively). Interest is capitalized towards the Magino project until the time where it is ready for its intended use.

(Unaudited and expressed in thousands of United States dollars, except where noted)

## 10 LEASE LIABILITIES

*Overview*

| | | June 30, 2022 | | December 31, 2021 |
|---|---|---|---|---|
| Florida Canyon mine leases | $ | 35,221 | $ | 36,986 |
| Magino project leases | | 21,867 | | 17,033 |
| Other operating leases | | 639 | | 918 |
| Lease liabilities | $ | 57,727 | $ | 54,937 |
| Current portion of lease liabilities | $ | 19,739 | $ | 17,477 |
| Non-current portion of lease liabilities | $ | 37,988 | $ | 37,460 |

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 $26,533 for the six months ended June 30, 2022 (six months ended June 30, 2021 - $23,509).

*Florida Canyon mine leases*

Upon acquisition of Alio in July 2020, the Company assumed a Master Services Agreement (the “Lease Agreement”) to lease thirteen trucks and three loaders employed at the Florida Canyon Mine site. 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 introduction of four new trucks (the “New Trucks”) 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 with a deemed value of $10,787. The revaluation of the Amended Lease Agreement relating to the original Florida Canyon Equipment resulted in a deemed increase in value of $1,672. The Amended Lease Agreement enacted modifications to the interest rate and hourly fee structure found in the Lease Agreement. The hourly fees are comprehensive and include the lease charge, the service fees and the financing components. The expected lease terms for the Florida Canyon Equipment varies per each unit, ending between June 2024 and August 2026.

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.

During the six months ended June 30, 2022, the Company leased an additional loader to be incorporated into the Florida Canyon Equipment. The lease of the new loader included an implicit interest rate of 4.04% and a fee structure separate from the fees on the other units within the Florida Canyon Equipment, resulting in a separate expected value of $3,486 for 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 loader unit ends in July 2026.

**(Unaudited and 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:

| | | |
|---|---|---|
| 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 |
| New unit of equipment | | 3,486 |
| Interest | | 778 |
| Payments - principal and interest | | (6,029) |
| Balance, June 30, 2022 | $ | 35,221 |
| Current portion of equipment lease liabilities | $ | 12,297 |
| Non-current portion of equipment lease liabilities | $ | 22,924 |

The Florida Canyon Equipment is being amortized straight-line over the life of the mine to an estimated recoverable amount of $100 for each truck and loader. For the three and six months ended June 30, 2022, the Company recorded depreciation on the Florida Canyon Equipment of $1,453 and $2,832, respectively (three and six months ended June 30, 2021 - $1,302 and $2,298, respectively).

*Magino project leases*

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

- During the six months ended June 30, 2022, the Company entered into individual lease agreements with vendors for five units of equipment, including four trucks and loaders, and one drill rig. The leases contain a 48-month term and were valued using an implicit interest rate of 4.65% for the trucks and loaders, and 4.90% for the drill rig. The initial recognition of the value of these leases were $9,704.

- During 2021, 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.

- During 2021, 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.

- During 2021, 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.

**(Unaudited and expressed in thousands of United States dollars, except where noted)**

- During 2021, 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.

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 |
| Capitalization of Magino Leases | | 9,704 |
| Interest | | 437 |
| Payments - principal and interest | | (4,905) |
| Adjustment on currency translation | | (402) |
| Balance, June 30, 2022 | $ | 21,867 |
| Current portion of Magino Leases liabilities | $ | 7,078 |
| Non-current portion of Magino Leases liabilities | $ | 14,789 |

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 the three and six months ended June 30, 2022, the Company capitalized depreciation on the right-of-use assets associated with the Magino Leases of $1,278 and $2,555, respectively (three and six months ended June 30, 2021 - $nil) (note 6).

*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 interim condensed consolidated statements of financial position:

| | | June 30, 2022 | | December 31, 2021 |
|---|---|---|---|---|
| Current portion of lease liabilities | $ | 364 | $ | 437 |
| Non-current portion of lease liabilities | | 275 | | 481 |
| | $ | 639 | $ | 918 |

For the three and six months ended June 30, 2022, the Company recorded depreciation on other operating leases of $120 and $308, respectively (three and six months ended June 30, 2021 - $62 and $125, respectively).

**(Unaudited and expressed in thousands of United States dollars, except where noted)**

## 11 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, 2021 | 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[1] | 669,684 | 918 |
| Performance share units issued to employees, net of shares withheld[2] | 146,719 | 213 |
| Issuance of common shares for converted debentures | 7,002 | 20 |
| Issuance of common shares on exercise of Alio Replacement Options (Note 11d) | 513,052 | 1,226 |
| Stock options exercised (Note 11c) | 136,028 | 254 |
| Balance at December 31, 2021 | 311,197,075 | 1,031,827 |
| Issuance of flow-through shares | 19,780,000 | 33,533 |
| Restricted share units issued to employees, net of shares withheld[1] | 507,964 | 717 |
| Performance share units issued to employees, net of shares withheld[2] | 462,397 | 573 |
| Deferred share units issued to a director, net of shares withheld[3] | 59,473 | 108 |
| Stock options exercised (Note 11c) | 839,347 | 1,205 |
| Balance at June 30, 2022 | 332,846,256 | $ 1,067,963 |

[1] During the six months ended June 30, 2022, 196,209 vested restricted share units (year ended December 31, 2021 - 330,562 vested restricted share units) were withheld to satisfy tax withholding requirements under the Company's net settlement feature for vested restricted share units.

[2] During the six months ended June 30, 2022, 149,752 vested performance share units (year ended 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.

[3] During the six months ended June 30, 2022, 13,687 vested deferred share units (year ended December 31, 2021 - nil vested deferred share units) were withheld to satisfy tax withholding requirements under the Company's net settlement feature for vested deferred share units.

*Equity offering*

On July 5, 2022, the Company announced the closing of a marketed offering (the "Offering") of 434,000,000 common shares of the Company at a price of CA$0.45 per offered share, for gross proceeds of approximately $149,795 (CA$195,300) with a syndicate of agents. The net proceeds of the Offering will be used for the development of the Magino project and for general corporate purposes.

*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).

*Community agreements*

During the six months ended June 30, 2022, the Company issued $nil common shares (2021 - 809,717 common shares) as part of community agreements associated with the Magino project.

*Flow-through common shares*

In March 2022, 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, 15,870,000 CDE Flow-Through Shares at CA$2.54 per share for total gross proceeds of $31,829 (CA$40,310). Share issuance costs of $1,733 (CA$2,195) were incurred in relation to the offering, resulting in net proceeds to the Company of $30,096 (CA$38,115). The CDE Flow-Through Shares will provide the subscribers a Canadian tax deduction for qualified CDE incurred and renounced by the Company. The proceeds from the sale of the CDE Flow-Through Shares are being 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 $26,897 and flow-through share premium of $3,199. During the six months ended June 30, 2022, the Company used $25,395 (CA$32,393) to fund development of the Magino project, and is required to incur the remainder of the expenditures before December 31, 2022. As at June 30, 2022, the remaining flow-through share premium liability was $512 (CA$624).

In March 2022, the Company closed an offering of Canadian exploration expenditures (“CEE”) flow-through common shares of the Company (“CEE Flow-Through Shares”) with a syndicate of underwriters pursuant to which the underwriters purchased, on a bought deal basis, 3,910,000 CEE Flow-Through Shares at CA$2.95 per share for total gross proceeds of $9,108 (CA$11,535). Share issuance costs of $484 (CA$613) were incurred in relation to the offering, resulting in net proceeds to the Company of $8,624 (CA$10,922). The CEE Flow-Through Shares will provide the subscribers a Canadian tax deduction for qualified CEE incurred and renounced by the Company. The net proceeds were bifurcated between share capital of $6,636 and flow-through share premium of $1,988.

During the six months ended June 30, 2022, the Company used $2,241 (CA$3,179) of the proceeds to fund exploration activities related to the Company's directly or indirectly held projects in Ontario, Canada, and is required to incur the remainder of the expenditures before December 31, 2023. As at June 30, 2022, the remaining flow-through share premium liability was $1,210 (CA$1,458).

In September 2021, the Company issued 467,532 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 renounced those expenditures to the investors effective December 31, 2021. During the three and six months ended June 30, 2022, the Company used $66 (CA$83) of the proceeds to fund exploration activities in a joint operation in Quebec, Canada. As at June 30, 2022, the total expenditures to date were $747 (CA$945), with the Company required to incur the remainder of the expenditures before December 31, 2022. As at June 30, 2022, the remaining flow-through share premium liability was $148 (CA$187).

In February 2021, the Company closed an offering of 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).

c) Share-based compensation

The Company has established the Share Incentive Plan, as amended, which was originally 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 may be 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.

(Unaudited and expressed in thousands of United States dollars, except where noted)

The following table summarizes information relating to stock options outstanding and exercisable at June 30, 2022 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 | 688,672 | 3.60 | $ 1.10 | 688,672 | $ 1.10 |
| 1.32 - 2.48 | 1,115,538 | 6.29 | 1.96 | 956,598 | 1.99 |
| 2.49 - 4.00 | 560,710 | 4.33 | 2.61 | 513,074 | 2.59 |
| 4.01 - 9.44 | 275,026 | 1.15 | 6.62 | 275,026 | 6.62 |
| $ 1.10 - 9.44 | 2,639,946 | 4.64 | $ 2.36 | 2,433,370 | $ 2.39 |

The following table summarizes stock option activity for the Company:

| | Options | Weighted average exercise price (CA$) |
|---|---|---|
| Outstanding at January 1, 2021 | 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 |
| Exercised | (839,347) | 1.21 |
| Forfeited | (770,519) | 3.60 |
| Expired | (75,254) | 8.31 |
| Outstanding at June 30, 2022 | 2,639,946 | $ 2.36 |

The weighted average share price at the time of exercise for 2022 was CA$2.41 per share (2021 - CA$2.89 per share).

The total share-based compensation related to stock options granted by the Company for the three and six months ended June 30, 2022 was a net reversal of forfeited share-based compensation of $18 and an expense of $22, respectively (three and six months ended June 30, 2021 - expense of $66 and $146, respectively). As at June 30, 2022, there was $53 of unamortized stock-based compensation expense related to stock options granted (December 31, 2021 - $125).

**(Unaudited and expressed in thousands of United States dollars, except where noted)**

The following weighted-average assumptions were used in computing the fair value of stock options granted during the six months ended June 30, 2021:

| | | | 2021 |
|---|---|---|---|
| Weighted average share price | CA | $ | 2.44 |
| Expected dividend yield | | | Nil |
| Expected volatility | | | 62.9 % |
| Risk-free interest rate | | | 0.6 % |
| Estimated forfeiture rate | | | 11.9 % |
| Expected life | | | 5 years |
| Weighted average fair value per stock option granted | CA | $ | 1.23 |

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

*Restricted share units*

The following table summarizes the RSU activity for the Company:

| | RSUs | | Weighted average fair value (CA$) |
|---|---|---|---|
| Outstanding at January 1, 2021 | 2,249,323 | $ | 1.62 |
| Granted | 1,014,195 | | 2.39 |
| Vested | (1,000,246) | | 1.74 |
| Forfeited | (839,893) | | 1.85 |
| Outstanding at December 31, 2021 | 1,423,379 | | 1.95 |
| Granted(1) | 1,358,462 | | 2.34 |
| Vested(2) | (704,173) | | 1.83 |
| Forfeited | (147,252) | | 2.21 |
| Outstanding at June 30, 2022 | 1,930,416 | $ | 2.25 |

(1) The 1,358,462 RSUs granted during the six months ended June 30, 2022 were all granted to employees (year ended December 31, 2021 - 1,014,195 to employees) that will be issued once the shares vest according to the terms below.

(2) The 704,173 RSUs vested during the six months ended June 30, 2022 were all granted to employees (year ended December 31, 2021 - 1,000,246 to employees).

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 the three and six months ended June 30, 2022 was $350 and $681, respectively (three and six months ended June 30, 2021 - $359 and $681, respectively). As at June 30, 2022, there was $1,534 of unamortized stock-based compensation expense related to RSUs (December 31, 2021 - $609).

**(Unaudited and expressed in thousands of United States dollars, except where noted)**

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 June 30, 2022, 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 June 30, 2022, the Company estimates that it would have had to transfer approximately $171 to the tax authorities for withholding taxes on such vested RSUs.

*Performance share units*

The following table summarizes the PSU activity for the Company:

| | PSUs | Weighted average fair value (CA$) |
|---|---|---|
| Outstanding at January 1, 2021 | 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 |
| Granted | 862,609 | 2.55 |
| Vested | (612,149) | 2.11 |
| Outstanding at June 30, 2022 | 1,746,386 | $ 2.20 |

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 the three and six months ended June 30, 2022 was $481 and $792, respectively (three and six months ended June 30, 2021 - $286 and $775, respectively). As at June 30, 2022, there was $1,365 of unamortized stock-based compensation expense related to PSUs (December 31, 2021 - $743).

*Deferred share units*

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

| | DSUs | Weighted average exercise price (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 |
| Granted | 327,462 | 2.32 |
| Settled | (87,014) | 2.33 |
| Outstanding at June 30, 2022 | 563,960 | $ 2.33 |

**(Unaudited and expressed in thousands of United States dollars, except where noted)**

In 2021, 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 following the departure from the Board of Directors. 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. During the six months ended June 30, 2022, the Company settled DSUs for common shares of the Company.

The total share-based compensation expense related to DSUs for the three and six months ended June 30, 2022 was an expense of $nil and $598, respectively (three and six months ended June 30, 2021 - $nil and $640, respectively).

d) Alio Replacement Options

At June 30, 2022, the Company had outstanding Alio Replacement Options.

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

| | Options | Weighted average exercise price (CA$) |
|---|---|---|
| Outstanding at July 1, 2020 | 1,173,790 | $ 6.53 |
| Forfeited | (3,120) | 3.34 |
| Expired | (538,848) | 12.12 |
| Exercised | (513,052) | 1.17 |
| Outstanding at December 31, 2021 | 118,770 | 4.41 |
| Forfeited | (1,576) | 4.04 |
| Expired | (1,237) | 12.12 |
| Outstanding at June 30, 2022 | 115,957 | $ 4.33 |

The weighted average share price at the time of exercise for 2022, was CA$nil per share (2021 - CA$2.89 per share). The Alio Replacement Options have varied expiry dates ranging from July 2022 to February 2028.

The following table summarizes information relating to Alio Replacement Options outstanding and exercisable at June 30, 2022:

| 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 - 4.00 | 32,705 | 2.08 | $ 1.59 | 32,705 | $ 1.59 |
| 4.01 - 7.00 | 69,649 | 2.82 | 4.49 | 69,649 | 4.49 |
| 7.01 - 10.10 | 13,603 | 4.12 | 10.10 | 13,603 | 10.10 |
| $ 1.06 - 10.10 | 115,957 | 2.76 | $ 4.33 | 115,957 | $ 4.33 |

**(Unaudited and expressed in thousands of United States dollars, except where noted)**

## 12 SHARES OUTSTANDING

| | Three months ended June 30, 2022 | Three months ended June 30, 2021 | Six months ended June 30, 2022 | Six months ended June 30, 2021 |
|---|---|---|---|---|
| Basic weighted average shares outstanding | 332,786,743 | 310,318,903 | 325,416,876 | 304,934,741 |
| Weighted average shares dilution adjustments:[1] | | | | |
| Stock options | 232,053 | 1,706,027 | 890,074 | 1,512,657 |
| Restricted share units | 787,873 | 1,505,742 | 807,734 | 1,383,397 |
| Performance share units | 210,191 | 1,663,596 | 389,956 | 1,464,234 |
| Deferred share units | 614,638 | 345,944 | 541,820 | 254,202 |
| Diluted weighted average shares outstanding | 334,631,498 | 315,540,212 | 328,046,460 | 309,549,231 |
| Antidilutive securities | 21,815,415 | 21,305,414 | 21,533,666 | 21,431,954 |

[1] Impact of dilutive stock options and other share-based compensation arrangements were determined using the Company's average share price for the three and six months ended June 30, 2022 of CA$1.58 and CA$1.95, respectively (three and six months ended June 30, 2021 - CA$2.91 and CA$2.62, respectively).

## 13 OTHER (EXPENSE) INCOME

| | Three months ended June 30, 2022 | Three months ended June 30, 2021 Re-presented (Note 3) | Six months ended June 30, 2022 | Six months ended June 30, 2021 Re-presented (Note 3) |
|---|---|---|---|---|
| Foreign exchange loss | (1,193) | (650) | (2,259) | (639) |
| Gain on sale of net smelter return royalty | — | 2,250 | — | 2,250 |
| Loss on sale of marketable securities[1] | — | — | (534) | — |
| Gain on settlement of receivables from acquisition | — | 1,751 | — | 1,751 |
| Revaluation of marketable securities | (110) | (107) | (36) | (705) |
| Transaction costs on financing alternatives | (2,325) | — | (2,325) | — |
| Other income (expense) | 955 | (326) | 581 | (817) |
| | $ (2,673) | $ 2,918 | $ (4,573) | $ 1,840 |

[1] During March 2022, the Company disposed in full its marketable securities acquired upon the acquisition of Alio for $5,336 in gross proceeds, less transaction costs of $114, and a realized foreign exchange gain of $85, for net proceeds of $5,307, received fully in cash. The disposition resulted in a realized loss on sale of $nil and $534 during the three and six months ended June 30, 2022, respectively (three and six months ended June 30, 2021 - $nil).

(Unaudited and expressed in thousands of United States dollars, except where noted)

## 14 SUPPLEMENTAL CASH FLOW INFORMATION

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Decrease in expenditures on mineral properties, plant and equipment related to an increase in accounts payable and accrued liabilities | $ (508) | $ (23,304) | $ (8,419) | $ (37,111) |
| Fair value of leases capitalized as equipment additions | — | 5,566 | 13,190 | 12,632 |
| Fair value of common shares issued related to community agreements capitalized as mineral property additions | — | — | — | 1,590 |
| Fair value of RSUs allocated from contributed surplus to share capital upon vesting | — | 101 | 717 | 918 |
| Fair value of PSUs allocated from contributed surplus to share capital upon vesting | — | 13 | 573 | 213 |
| Fair value of DSUs allocated from contributed surplus to share capital upon settlement | 108 | — | 108 | — |

## 15 SEGMENT INFORMATION

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

The Company operates in the mining industry and its principal product is gold. During the three and six months ended June 30, 2022 sales were to two customers (three and six months ended June 30, 2021 - two customers) and were recognized at a point in time. The Company's revenue is generated on the sale of product originating from Mexico and the United States. As at June 30, 2022, 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).

**(Unaudited and expressed in thousands of United States dollars, except where noted)**

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 |
|---|---|---|---|---|---|---|---|
| Three months ended June 30, 2022 | | | | | | | |
| Revenue | $ 59,574 | $ 25,679 | $ 26,152 | $ — | $ — | $ — | $ 111,405 |
| Production costs | 38,496 | 14,212 | 22,235 | — | — | — | 74,943 |
| Depreciation, depletion and amortization | 10,565 | 2,878 | 3,223 | — | — | — | 16,666 |
| Reversal of inventory write-down (Note 5) | (13) | — | — | — | — | — | (13) |
| Total cost of sales | 49,048 | 17,090 | 25,458 | — | — | — | 91,596 |
| Gross profit | 10,526 | 8,589 | 694 | — | — | — | 19,809 |
| Exploration expenses | — | — | — | — | — | 425 | 425 |
| General and administrative expenses | 745 | 304 | — | 13 | 2 | 3,507 | 4,571 |
| Profit (loss) from operations | $ 9,781 | $ 8,285 | $ 694 | $ (13) | $ (2) | $ (3,931) | $ 14,813 |
| Capital expenditures | $ 471 | $ 5,090 | $ 4,502 | $ 279 | $ 94,695 | $ 320 | $ 105,357 |
| Six months ended June 30, 2022 | | | | | | | |
| Revenue | $ 120,586 | $ 50,946 | $ 45,675 | $ — | $ — | $ — | $ 217,207 |
| Production costs | 74,751 | 27,593 | 39,388 | — | — | — | 141,732 |
| Depreciation, depletion and amortization | 22,583 | 6,344 | 5,270 | — | — | — | 34,197 |
| Reversal of inventory write-down (Note 5) | (194) | — | — | — | — | — | (194) |
| Total cost of sales | 97,140 | 33,937 | 44,658 | — | — | — | 175,735 |
| Gross profit | 23,446 | 17,009 | 1,017 | — | — | — | 41,472 |
| Exploration expenses | — | — | — | — | — | 792 | 792 |
| General and administrative expenses | 1,412 | 614 | — | 19 | 2 | 7,545 | 9,592 |
| Profit (loss) from operations | $ 22,034 | $ 16,395 | $ 1,017 | $ (19) | $ (2) | $ (8,337) | $ 31,088 |
| Capital expenditures | $ 4,464 | $ 6,213 | $ 9,487 | $ 527 | $ 184,190 | $ 549 | $ 205,430 |
| June 30, 2022 | | | | | | | |
| Mineral properties, plant and equipment | $ 71,346 | $ 45,482 | $ 109,128 | $ 20,577 | $ 781,508 | $ 34,039 | $1,062,080 |
| Total assets | $ 183,736 | $ 93,724 | $ 164,804 | $ 22,633 | $ 795,160 | $ 57,388 | $1,317,445 |

**(Unaudited and 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 |
|---|---|---|---|---|---|---|---|
| Three months ended June 30, 2021 | | | | | | | |
| Revenue | $ 61,295 | $ 33,487 | $ 25,412 | $ — | $ — | $ — | $ 120,194 |
| Production costs | 33,461 | 12,176 | 15,604 | — | — | — | 61,241 |
| Depreciation, depletion and amortization | 10,418 | 5,358 | 3,105 | — | — | — | 18,881 |
| Inventory write-down (Note 5) | 236 | — | — | — | — | — | 236 |
| Total cost of sales | 44,115 | 17,534 | 18,709 | — | — | — | 80,358 |
| Gross profit | 17,180 | 15,953 | 6,703 | — | — | — | 39,836 |
| Exploration expenses | — | — | — | — | — | 1,070 | 1,070 |
| General and administrative expenses | 438 | 240 | — | 24 | (16) | 3,019 | 3,705 |
| Profit (loss) from operations | $ 16,742 | $ 15,713 | $ 6,703 | $ (24) | $ 16 | $ (4,089) | $ 35,061 |
| Capital expenditures | $ 4,479 | $ 918 | $ 12,308 | $ 250 | $ 69,387 | $ 861 | $ 88,203 |
| Six months ended June 30, 2021 | | | | | | | |
| Revenue | $ 118,650 | $ 58,585 | $ 48,226 | $ — | $ — | $ — | $ 225,461 |
| Production costs | 65,174 | 23,772 | 34,590 | — | — | — | 123,536 |
| Depreciation, depletion and amortization | 20,396 | 9,611 | 6,444 | — | — | — | 36,451 |
| Reversal of inventory write-down (Note 5) | (1,920) | — | — | — | — | — | (1,920) |
| Total cost of sales | 83,650 | 33,383 | 41,034 | — | — | — | 158,067 |
| Gross profit | 35,000 | 25,202 | 7,192 | — | — | — | 67,394 |
| Exploration expenses | — | — | — | — | — | 1,691 | 1,691 |
| General and administrative expenses | 1,003 | 519 | — | 26 | (16) | 6,939 | 8,471 |
| Profit (loss) from operations | $ 33,997 | $ 24,683 | $ 7,192 | $ (26) | $ 16 | $ (8,630) | $ 57,232 |
| Capital expenditures | $ 9,473 | $ 3,256 | $ 21,394 | $ 649 | $ 111,612 | $ 1,183 | $ 147,567 |
| 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 |

## 16 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.

*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 June 30, 2022, the remaining qualified CDE to be incurred by December 31, 2022 is $6,433 (note 11b) and the remaining qualified CEE to be incurred by December 31, 2022 and December 31, 2023 is $676 and $5,723, respectively (note 11b).

*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 was 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. In April 2022, the Company settled the liability with the former contractor for $3,300.

*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 in March 2022 the Court of Appeal released its decision allowing the appeal but remitting the matter of certification to the trial court for further consideration. 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 certification application 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.

*Gold forward sales contracts*

On March 4, 2022, the Company entered into monthly unsecured forward gold sales contracts (referred to as the "Gold Forwards") of 7,500 gold ounces per month between April 2022 and March 2023, at a fixed price of $1,916 per gold ounce. At inception, these Gold Forwards totaled 90,000 ounces to be settled on a monthly basis over the next 12-months and are expected to be settled through the Company's production. For the three and six months ended June 30, 2022, the Company recognized $43,102 of revenue for the 22,500 ounces of gold delivered during the period under these contracts. As at June 30, 2022, 67,500 ounces remain to be settled over the next nine-months through the Company's production. At the discretion of the Company, physical ounces can be delivered and settled early into the Gold Forwards.

*Financing gold forward sales contracts*

On June 29, 2022, pursuant to the receipt of the binding letter of commitment for the Committed Credit Facilities (note 9), the Company entered into a number of monthly Financing Gold Forwards. At inception, these Financing Gold Forwards totaled 300,000 ounces to be settled on a monthly basis from July 2023 to June 2027, which are expected to be settled through the Company's production from the Magino project. The Financing Gold Forwards comprise 150,000 ounces to be settled on an average monthly basis of 8,333 ounces between July 2023 and December 2024, at an average fixed price of $1,860 per gold ounce. The Financing Gold Forwards comprise a further 150,000 ounces to be settled on a monthly basis of 5,000 ounces between January 2025 and June 2027, at an average fixed price of $1,860 per gold ounce. Upon the closing and at the discretion of the Company, physical ounces can be delivered and settled early into the Financing Gold Forwards.

(Unaudited and expressed in thousands of United States dollars, except where noted)

## 17 FINANCIAL INSTRUMENTS

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

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Financial assets at amortized cost[1] | $ 75,973 | $ 201,260 |
| Financial liabilities at amortized cost[2] | (309,218) | (287,924) |
| Financial assets at fair value through profit or loss[3] | 2,855 | 9,292 |
| Financial liabilities at fair value through profit or loss[4] | (660) | (12,719) |

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

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

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

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

Upon acquisition of Alio, the Company acquired marketable securities consisting of common shares of a publicly-traded company. The fair value was determined based on the quoted market price with subsequent changes to fair values recognized in the interim condensed consolidated statements of income. During the six months ended June 30, 2022, the Company disposed of its marketable securities acquired upon the acquisition of Alio (note 13).

As at June 30, 2022 and December 31, 2021, 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 June 30, 2022 and December 31, 2021, the carrying amounts of other liabilities and debt, excluding the Debentures, are considered to be reasonable approximations of their fair values as either there have been no significant changes in market interest rates or the liability bears interest at a floating rate.

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 June 30, 2022, the fair value of the Debentures is $50,008 (December 31, 2021 - $58,630), determined by reference to published price quotations in an active market (classified as level 1 in the fair value hierarchy).

(Unaudited and expressed in thousands of United States dollars, except where noted)

*Commodity derivative contracts - gold collars*

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 “Gold Collars”). All of the Gold Collars had expired as at June 30, 2022.

The details of the Gold Collars that the Company entered into, are as follows:

| Gold Collars at inception | | Quantity[2] (Ounces) | Term | Strike price per ounce[1][2] |
|---|---|---|---|---|
| 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 | Expired | 18,000 | January 2022 - June 2022 | $1,450 |
| Gold call options - sold | Expired | 13,500 | January 2022 - June 2022 | $1,745 |
| Gold call options - sold | Expired | 4,500 | January 2022 - June 2022 | $1,816 |

(1) Contracts were 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 did not fluctuate by month within each calendar year.

The fair value of the Gold Collars at June 30, 2022 was $nil. Previously the fair values of the Gold Collars had been recognized, on a net basis, in derivative liabilities on the interim condensed consolidated statements of financial position. These derivative instruments were not designated as hedges by the Company and were fair valued at the end of each reporting period with the fair value adjustment recorded in the interim condensed consolidated statements of income. The Gold Collars were valued using a Levy two moment valuation model which used quoted observable inputs and were classified as Level 2 in the fair value hierarchy.

During the three and six months ended June 30, 2022, a reversal of prior period unrealized loss of $2,032 and $1,259, respectively (three and six months ended June 30, 2021 - reversal of prior period unrealized loss - $302 and $13,483, respectively) was recognized in the interim condensed consolidated statements of income on the fair value of the Gold Collars. During the three and six months ended June 30, 2022, a realized loss on the Gold Collars of $983 and $1,982, respectively (three and six months ended June 30, 2021 - $1,167 and $2,139, respectively) was recognized in the interim condensed consolidated statements of income.