



ARGONAUT GOLD

**2022 ANNUAL REPORT**



## **Message from the Chairman**

Dear Shareholders,

2022 was the most challenging year in the history of Argonaut Gold and one that fundamentally changed how we will operate today and, in the future, guided by our new vision, mission and values which will be embedded in everything we do moving forward. We will leverage our core values of integrity, respect, communication, collaboration, care and performance, to realize our vision of becoming a low-cost, mid-tier North American gold producer that creates significant value for our stakeholders and proudly demonstrates responsible mining. We will accomplish this by delivering asset growth and operational excellence, while protecting our people and the environment, and being a good partner to our communities.

Our greatest challenge presented itself at our flagship Magino project. While we made tremendous progress in a difficult construction environment, cost overruns put the Company in a precarious financial position.

Despite turbulent financial markets, Argonaut was still able to raise over \$500 million through a combination of debt, equity and a royalty on the Magino project, not only critical to our survival, but also a testament to our stakeholders' overall confidence and commitment to the Company. We sincerely appreciated this support and dedication to Argonaut's viability and long-term success.

Magino is the cornerstone of Argonaut's future: it is expected to be our lowest cost, longest life mine located in a tier one mining jurisdiction of Ontario, Canada. Magino is expected to average about 150,000 ounces of gold per year on its own over its first five years following its ramp up period at life of mine all-in-sustaining costs of \$1,000 per ounce, making it one of the lowest cost gold mines in Canada. We are looking at options to increase production with the goal of having Magino among the top gold mines in Canada.

At the end of 2022, construction at Magino was 80% complete and was progressing very well. Today I am pleased to report that we remain on track for first pour in the second quarter of this year.

This progress at Magino was in no small part due to Larry Radford who joined Argonaut in March 2022 as interim CEO. Larry focused on righting our ship, ensuring we had the best team in place to build Magino properly, on schedule and on budget. Larry always viewed the role as temporary; to put us on the path to success. He did just that and I want to thank Larry for leading us through such a difficult period.

In December, Richard Young replaced Larry as CEO. Richard is the right leader for the right time. He has a great track record of building a successful gold company. Richard is well respected, knows how to build strong teams, is an advocate for ESG, and understands creating shareholder value is priority. We feel very good about having the Company under the leadership of such a respected CEO.

Magino's capital overrun and an unacceptable tragic on-site fatality experienced by a sub-contractor, made us rethink everything we do. Our El Castillo operation has delivered \$200 million in free cash flows to Argonaut over the years. In December, we began the end of life shut down process at El Castillo early due to significant margin compression. At our La Colorada mine, we decided to defer the massive stripping that was planned and to relook at the underground potential of La Colorada on a more capital efficient basis. This decision will improve our near-term cash flow, but will delay future production at La Colorada.

Our San Agustin mine continued to produce good results, however, we will need permits and access to new land to extend the mine life as desired. The permitting environment in Mexico remains a challenge currently.

Our Florida Canyon mine produced about 50,000 ounces of gold in 2022, but has still not delivered the operational reliability we expect. Our new management team is taking a fresh look at Florida Canyon and feel very positive about the potential at this operation.

As we look forward, our primary focus remains the completion and ramp up at Magino. We believe that the biggest value drivers for Argonaut over the next several years are focused on the success of Magino through 1) the delivery of the project on schedule, 2) a safe and efficient ramp up to nameplate capacity following construction, and 3) a potential expansion to the processing facilities and the development of a high-grade underground mine that would operate concurrent with the open pit mine.

In closing, I want to recognize our management team and employees for their loyalty and dedication to the Company. The past year was not an easy one, and members of the team worked incredibly hard to get Argonaut moving in the right direction. We are all committed to seeing Argonaut transition from a higher-cost, junior producer with relatively short mine lives to a lower-cost, mid-tier gold producer with longer mine lives. Magino is an important step in that journey.

Sincerely,

James E. Kofman  
**Chairman**

## **Message from the President and CEO**

2022 was a very challenging year for our shareholders, marked by disappointing operational and financial performance, however, it does not in any way diminish our enthusiasm for the future of Argonaut as I will describe in this letter.

What attracted me to join Argonaut, was the chance to be part of a team that believes we have an opportunity to build one of the largest and lowest cost gold mines in Canada with our Magino Project, combining a large open pit operation with the potential of higher-grade underground material to feed an expandable mill. If we achieve this goal, we would be one of the only top tier Canadian mines not owned by a senior gold company. The commissioning of Magino will be the first step in transforming the Company as it enters a pivotal growth stage.

To accomplish that goal, we are laser focused on completing construction at Magino, with first gold pour planned for mid-May, followed by commercial production in the third quarter. We are progressing well on completing construction, commissioning the mill and ramping up to full operations, in addition to advancing the underground exploration program. As a result of capital cost increases, the steps taken last year to strengthen the balance sheet put the Company in a solid financial position to complete the Project.

In addition to Magino, we will be focused on exploring the large sulfide resource at our Florida Canyon mine, located just below existing oxide deposits. We recognize that Florida Canyon has never been a significant cash flow generator, but we have put a plan in place to stabilize and optimize the current oxide operation, as well as begin a proof-of-concept program for the sulfide material.

The combination of an expanded Magino mill with the potential to add underground material, and a possible re-development of Florida Canyon would provide the foundation for building a low-cost mid-tier gold producer in North America able to deliver sustainable returns to shareholders.

Our Mexican operations have been the cornerstone of this Company since its Initial Public Offering, 2022 marked the final year that our Mexican operations contributed the majority of our production and cash flows. Since joining in December, we have revised the mine plans to focus on free cash flow generation. As a result, we suspended mining activities at El Castillo ahead of schedule and we anticipate, at least temporarily, pausing mining activities at our two other operating mines in Mexico by the fourth quarter of this year.

While we have significant reserves and resources in Mexico, we require land access and permit approvals to continue mining. The timing of these approvals is uncertain at this point.

We also made several management changes during the first quarter of this year aimed at strengthening our management team and providing the collective skills and expertise to execute on our mission, vision, strategy and values. Our ability to attract these highly skilled individuals is a testament to the special opportunity we have at Argonaut today.

2023 is a year of transition, with a new mine and new management team. Production is expected to be similar to last year, while costs will begin to improve, however, from a production, cost and cash flow perspective we will not see the full benefit of Magino until next year.



Management is focused on adding value across our asset base. First, we are focused on providing a pathway for Magino to become a top tier gold mine in Canada. Second, completing a proof-of-concept for the Florida Canyon sulfides, which currently have no value in our share price. Third, optimizing the remaining value of our Mexican asset base. Beyond our operations, our focus will be on building a strong ESG program that we can all be proud of.

Argonaut has operated a strong ESG program in Mexico and is at the forefront of the mining industry in its engagement with First Nations here in Canada, which is a credit to the board and prior management. Going forward, we will step up our ESG engagement. We believe that a strong social license is paramount to creating a successful mining company. To that end, we have increased the ESG weighting in our company scorecard, and added resources and enhanced focus to our ESG strategy and efforts, which start from the top. We look forward to sharing our progress with our stakeholders over the next several years. Our goal is to make all our stakeholders proud of being associated with this Company.

In conclusion, we at Argonaut thank you for your support through a difficult 2022 and appreciate your patience this year as we execute on the value creation opportunities we have laid out in this letter, driving our Company's prospects and positioning it for future growth.

Sincerely,

Richard Young  
**President and CEO**





# ARGONAUT GOLD

Consolidated Financial Statements

**December 31, 2022 and 2021**

(Expressed in thousands of United States dollars)

## Management's responsibility for financial reporting

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

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

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

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

/s/ Richard Young  
Chief Executive Officer

/s/ David A. Ponczoch  
Chief Financial Officer

February 26, 2023



## Independent auditor's report

To the Shareholders of Argonaut Gold Inc.

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### Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Argonaut Gold Inc. and its subsidiaries (together, the Company) as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

### What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2022 and 2021;
- the consolidated statements of (loss) income for the years then ended;
- the consolidated statements of comprehensive (loss) income for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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### Basis for opinion

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

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

### Independence

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

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



## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p><b>Impairment assessment of mineral properties, plant and equipment and assets under construction</b></p> <p><i>Refer to note 2 – Significant accounting policies, note 3 – Significant estimates and judgments, note 8 – Mineral properties, plant and equipment, note 22 – Segment information and note 27 – Impairment to the consolidated financial statements.</i></p> <p>As at December 31, 2022, the total net book value of mineral properties, plant and equipment and assets under construction amounted to \$992.5 million. At each reporting date, management reviews its non-current assets for impairment indicators. If any such indicators exist, management estimates the recoverable amount of the assets or cash generating unit (CGU) in order to determine the extent of the impairment, if any. If the carrying amount of an asset or CGU exceeds its recoverable amount, the carrying amount of the asset or CGU is reduced to its recoverable amount.</p> <p>During the year ended December 31, 2022, management identified impairment indicators for the following CGUs: Florida Canyon, La Colorada, San Agustin, El Castillo and Magino. Accordingly, management estimated the recoverable amounts of these CGUs. The mineral properties, plant and equipment and assets under construction of these CGUs represented a significant portion of the total net book value of these assets. The recoverable amounts were determined by the fair value less</p>	<p>Our approach to addressing the matter included the following procedures, among others:</p> <ul style="list-style-type: none"><li>• Tested how management determined the recoverable amounts of the Florida Canyon, La Colorada, San Agustin, El Castillo and Magino CGUs, which included the following:<ul style="list-style-type: none"><li>– Evaluated the appropriateness of the FVLCD method and tested the mathematical accuracy of the discounted cash flow models.</li><li>– Tested the underlying data used by management in the discounted cash flow models.</li><li>– Evaluated the reasonableness of the key assumptions, such as estimated future commodity prices, exchange rates and expected future operating costs and capital, by (i) comparing estimated future commodity prices and exchange rates to external market and industry data; (ii) comparing expected future operating and capital costs to the current and past performance of the CGUs; and (iii) assessing whether these assumptions aligned with evidence obtained in other areas of the audit, as applicable.</li></ul></li><li>– The work of management's experts was used in performing the procedures to evaluate the reasonableness of the estimated recoverable mineral reserves and resources, future production volume</li></ul>



#### Key audit matter

cost of disposal (FVLCD) method for each CGU using discounted cash flow models and in-situ fair value per ounce of gold equivalent to resources that were not considered in the discounted cash flow model.

Calculating the FVLCD required management to make significant judgments in developing key assumptions, which included estimated recoverable mineral reserves and resources, metallurgical recovery estimates, estimated future commodity prices, future production volume, expected future operating and capital costs, discount rates, exchange rates and the in-situ fair value per ounce of gold equivalent resources. Management relies on internal geological and metallurgical experts to develop estimates of recoverable mineral reserves and resources, metallurgical recovery estimates and future production volume (management's experts).

During the year ended December 31, 2022, management recorded a total impairment charge of \$125.2 million related to these CGUs.

We considered this a key audit matter due to the significant judgment made by management in developing key assumptions to determine the recoverable amounts of the CGUs. This, in turn, resulted in significant audit effort and subjectivity in performing procedures to test these key assumptions. Professionals with specialized skill and knowledge in the field of valuation assisted in performing the procedures.

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

and metallurgical recovery estimates. As a basis for using this work, the competence, capabilities and objectivity of management's experts was evaluated, the work performed was understood and the appropriateness of the work as audit evidence was evaluated. The procedures performed also included evaluation of the methods and assumptions used by management's experts, tests of the data used by management's experts and an evaluation of their findings.

- Utilized professionals with specialized skill and knowledge in the field of valuation to assist in the evaluation of the reasonableness of the discount rates and the in-situ fair value per ounce of gold equivalent resources.



Key audit matter	How our audit addressed the key audit matter
<p><b>Impact of estimated recoverable ounces of gold on leach pads on work-in-process inventory</b></p> <p><i>Refer to note 2 – Significant accounting policies, note 3 – Significant estimates and judgments and note 7 – Inventories to the consolidated financial statements.</i></p> <p>The Company's work-in-process inventory balance amounted to \$74.4 million as at December 31, 2022. Inventories are stated at the lower of weighted average cost and net realizable value. Work-in-process cost includes all direct costs incurred in production, including direct labour and materials, freight, depreciation and amortization of plant and equipment used in the production process, depletion of mineral properties and directly attributable overhead costs. Management applies significant judgment in determining the estimated recoverable ounces of gold on leach pads based on type of ore tonnes mined and placed on leach pad, grams of gold per tonne, expected recovery rates and timing of recoveries to determine the cost of work-in-process inventory per ounce, which is used to record cost of sales. The estimated recoverable ounces of gold on leach pads are determined by the Company's geological and metallurgical experts (management's experts).</p> <p>The net realizable value of work-in-process inventory is calculated based on the estimated recoverable ounces of gold placed on leach pads less ounces of gold recovered, the estimated gold price at the time of sale less remaining costs of completion to bring the inventory into its saleable form discounted over the planned processing timeframe. The writedown may be reversed if circumstances change. During the year, management recorded an impairment of \$22.9 million related to the net realizable value of its work-in-process inventory.</p>	<p>Our approach to addressing the matter included the following procedures, among others:</p> <ul style="list-style-type: none"><li>• Tested how management determined the estimated recoverable ounces of gold on leach pads, which included the following:<ul style="list-style-type: none"><li>– The work of management's experts was used in performing the procedures to evaluate the reasonableness of the estimated recoverable ounces of gold on leach pads. As a basis for using this work, the competence, capabilities and objectivity of management's experts was evaluated, the work performed was understood and the appropriateness of the work as audit evidence was evaluated. The procedures performed also included evaluation of the methods and assumptions used by management's experts, tests of the data used by management's experts and an evaluation of their findings.</li></ul></li><li>• Tested how management determined the net realizable value of work-in-process inventory, which included the following:<ul style="list-style-type: none"><li>– Tested the mathematical accuracy of the net realizable value calculations.</li><li>– Evaluated the reasonableness of assumptions used by management by comparing:<ul style="list-style-type: none"><li>○ estimated gold price at the time of sale with external market and industry data; and</li><li>○ remaining costs of completion to bring inventory into its saleable form with recent actual costs incurred.</li></ul></li><li>– Tested that work-in-process inventory at year-end was recorded at the lower of cost and net realizable value by testing the</li></ul></li></ul>





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

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## Other information

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

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

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

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

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going



concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

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



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

*PricewaterhouseCoopers LLP*

Chartered Professional Accountants

Vancouver, British Columbia  
February 26, 2023

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

	December 31, 2022	December 31, 2021
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 73,254	\$ 199,235
Receivables (Note 6)	25,751	32,019
Inventories (Note 7)	94,242	101,514
Prepaid income tax	8,618	497
Prepaid expenses and other	12,585	7,020
Marketable securities	80	6,049
Assets held for sale (Note 5)	17,402	—
	231,932	346,334
Non-current portion of inventory (Note 7)	—	2,976
Mineral properties, plant and equipment (Note 8)	1,018,328	902,239
Deferred income taxes (Note 15)	4,198	13,010
Reclamation deposits (Note 9)	2,792	3,243
Other assets	2,145	1,525
<b>Total assets</b>	<b>\$ 1,259,395</b>	<b>\$ 1,269,327</b>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities (Note 10)	\$ 94,291	\$ 104,369
Income taxes payable	4,014	30,510
Flow-through share premium (Note 16b)	658	162
Current portion of debt (Note 11)	350	—
Current portion of lease liabilities (Note 12)	20,448	17,477
Current portion of reclamation provision (Note 14)	21,276	16,044
Current portion of derivative liabilities (Note 26c)	1,884	1,258
Liabilities held for sale (Note 5)	1,466	—
	144,387	169,820
Debt (Note 11)	127,443	136,111
Lease liabilities (Note 12)	32,057	37,460
Reclamation provision (Note 14)	70,343	83,008
Deferred revenue (Note 13)	37,549	—
Derivative liabilities (Note 26c)	2,675	—
Deferred income taxes (Note 15)	3,271	6,317
Other liabilities	5,401	4,981
<b>Total liabilities</b>	<b>\$ 423,126</b>	<b>\$ 437,697</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 16b)	1,229,392	1,031,827
Contributed surplus	21,606	20,499
Deficit	(303,519)	(151,317)
Accumulated other comprehensive loss	(111,210)	(69,379)
<b>Total shareholders' equity</b>	<b>836,269</b>	<b>831,630</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,259,395</b>	<b>\$ 1,269,327</b>

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

Approved by the Board of Directors: /s/ Richard Young, Director

/s/ Dale C. Peniuk, Director

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

**ARGONAUT GOLD INC.****CONSOLIDATED STATEMENTS OF (LOSS) INCOME****For the years ended December 31, 2022 and 2021**  
**(Expressed in thousands of United States dollars)**

	2022	2021
Revenue	\$ 388,341	\$ 436,911
Cost of sales		
Production costs (Note 18)	278,293	253,750
Depreciation, depletion and amortization	63,341	71,494
Inventory impairment (reversal) (Note 7)	22,879	(2,693)
<b>Total cost of sales</b>	<b>364,513</b>	<b>322,551</b>
<b>Gross profit</b>	<b>23,828</b>	<b>114,360</b>
Exploration expenses	3,904	4,315
General and administrative expenses	18,226	18,130
Other operating (income) expense	(438)	413
Impairment of mineral properties, plant and equipment (Note 27)	135,547	64,877
<b>(Loss) profit from operations</b>	<b>(133,411)</b>	<b>26,625</b>
Finance income	1,197	1,233
Finance expenses (Note 19)	(3,667)	(2,838)
Gain on derivatives (Notes 11 and 26)	4,588	17,207
Other (expense) income (Note 20)	(12,666)	309
<b>(Loss) income before income taxes</b>	<b>(143,959)</b>	<b>42,536</b>
Current income tax expense (Note 15)	3,470	34,812
Deferred income tax expense (recovery) (Note 15)	4,773	(18,805)
<b>Net (loss) income</b>	<b>\$ (152,202)</b>	<b>\$ 26,529</b>
<b>(Loss) earnings per share</b>		
Basic	\$ (0.28)	\$ 0.09
Diluted	\$ (0.28)	\$ 0.08
<b>Weighted average number of common shares outstanding (Note 17)</b>		
Basic	552,547,321	307,975,052
Diluted	552,547,321	312,361,859

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

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**ARGONAUT GOLD INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**

**For the years ended December 31, 2022 and 2021**  
**(Expressed in thousands of United States dollars)**

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	2022	2021
<b>Net (loss) income</b>	<b>\$ (152,202)</b>	<b>\$ 26,529</b>
<b>Other comprehensive (loss) income</b>		
<b>Items that may be reclassified subsequently to net (loss) income</b>		
Foreign currency translation differences	(41,831)	3,958
<b>Comprehensive (loss) income</b>	<b>\$ (194,033)</b>	<b>\$ 30,487</b>

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

**ARGONAUT GOLD INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****For the years ended December 31, 2022 and 2021**  
**(Expressed in thousands of United States dollars)**

	2022	2021
<b>Operating activities</b>		
Net (loss) income	\$ (152,202)	\$ 26,529
Items not affecting cash:		
Depreciation, depletion and amortization	63,594	71,832
Gain on sale of net smelter return royalty	—	(2,250)
Gain on settlement of receivables	—	(1,751)
Share-based compensation	3,546	2,277
Net finance expense	2,470	1,605
Unrealized foreign exchange loss	238	1,849
Unrealized gain on derivatives	(7,165)	(21,015)
Inventory impairment (reversal) (Note 7)	22,879	(2,693)
Impairment of mineral properties, plant and equipment (Note 27)	135,547	64,877
Loss on sale of mineral property interest (Note 13)	1,210	—
Loss on sale of marketable securities	534	—
Deferred income taxes	6,514	(13,767)
Change in estimate of reclamation costs (Note 14)	(438)	413
Reduction of obligation to renounce flow-through exploration expenditures	(6,957)	(5,038)
Other	827	2,065
	70,597	124,933
Changes in non-cash operating working capital items		
Receivables	(1)	(4,946)
Inventories	(15,189)	(18,247)
Prepaid expenses and other	(6,186)	(1,257)
Accounts payable and accrued liabilities	(11,107)	15,485
Income taxes	4,775	33,415
Changes in other non-current assets	(769)	405
Changes in other non-current liabilities	290	609
Reclamation paid	(7,568)	(890)
Income taxes paid	(39,837)	(20,052)
Interest received	1,246	1,233
Net cash (used in) provided by operating activities	(3,749)	130,688
<b>Investing activities</b>		
Expenditures on mineral properties, plant and equipment	(358,413)	(252,069)
Proceeds from sale of net smelter return royalty (Note 13)	52,500	2,250
Cash received for receivables from acquisition	—	7,675
Reclamation deposits refunded (Note 9)	—	5,664
Proceeds from sale of marketable securities, net of transaction costs (Note 20)	5,307	—
Proceeds from disposal of equipment	2,620	839
Net cash used in investing activities	\$ (297,986)	\$ (235,641)

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

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**ARGONAUT GOLD INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****For the years ended December 31, 2022 and 2021**  
**(Expressed in thousands of United States dollars)**

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	2022	2021
<b>Financing activities</b>		
Proceeds from issuance of flow-through shares (Note 16b)	\$ 53,858	\$ 22,229
Proceeds from issuance of common shares (Note 16b)	159,795	7,917
Share issuance costs (Note 16b)	(11,440)	(1,368)
Proceeds from exercise of stock options	798	668
Proceeds from debt, net of transaction costs (Note 11)	77,469	80,000
Debt repayments (Note 11)	(80,087)	—
Principal element of lease payments (Note 12)	(17,184)	(13,887)
Payments for settlement of foreign exchange forward contract (Note 26c)	(595)	—
Payments for settlement of derivatives (Note 26)	(2,233)	(4,232)
Interest paid	(10,234)	(5,638)
Net cash provided by financing activities	170,147	85,689
Effects of exchange rate changes on cash and cash equivalents	7,074	4,236
<b>Decrease in cash and cash equivalents</b>	<b>(124,514)</b>	<b>(15,028)</b>
Cash and cash equivalents, beginning of year	199,235	214,188
Cash (classified) declassified as assets held for sale (Note 5)	(1,467)	75
<b>Cash and cash equivalents, end of year</b>	<b>\$ 73,254</b>	<b>\$ 199,235</b>

Supplemental cash flow information (Note 21)

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



**ARGONAUT GOLD INC.****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY****For the years ended December 31, 2022 and 2021**  
**(Expressed in thousands of United States dollars)**

	2022	2021
<b>Share capital (Note 16b)</b>		
Balance at the beginning of the year	\$ 1,031,827	\$ 1,002,448
Issuance of flow-through shares	43,350	17,121
Issuance of common shares by way of equity offering	141,437	—
Issuance of common shares by way of private placement	9,974	7,895
Issuance of common shares related to community agreements	201	1,590
Issuance of common shares on exercise of Alio Replacement Options	—	1,226
Issuance of common shares on exercise of stock options	1,205	254
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
Issuance of common shares for converted debentures	—	20
Balance at the end of the year	1,229,392	1,031,827
<b>Contributed surplus</b>		
Balance at the beginning of the year	20,499	20,913
Stock options exercised	(407)	(812)
Restricted share units and performance share units vested	(1,897)	(1,879)
Deferred share units released	(135)	—
Share-based compensation expense	3,546	2,277
Balance at the end of the year	21,606	20,499
<b>Deficit</b>		
Balance at the beginning of the year	(151,317)	(177,846)
Net (loss) income	(152,202)	26,529
Balance at the end of the year	(303,519)	(151,317)
<b>Accumulated other comprehensive loss</b>		
Balance at the beginning of the year	(69,379)	(73,337)
Other comprehensive (loss) income	(41,831)	3,958
Balance at the end of the year	(111,210)	(69,379)
<b>Total shareholders' equity</b>	<b>\$ 836,269</b>	<b>\$ 831,630</b>

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

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**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2022 and 2021****(Expressed in thousands of United States dollars, except where noted)**

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**1 NATURE OF OPERATIONS**

Argonaut Gold Inc. (the “Company” or “Argonaut”) is a Canadian gold company listed on the Toronto Stock Exchange (“TSX”), and engaged in exploration, mine development, and production. The Company is in the final stages of construction of the Magino mine, located in Ontario, Canada. The Company also has three operating mines including the Florida Canyon mine in Nevada, USA, the San Agustin mine in Durango, Mexico, and the La Colorada mine in Sonora, Mexico. In the fourth quarter, the El Castillo mine ceased mining operations and is now in residual leaching. In addition, the Company holds the advanced exploration stage Cerro del Gallo project and several other exploration stage projects, all of which are located in North America. On July 1, 2020, the Company completed the acquisition of Alio Gold Inc. (“Alio”) which held the Florida Canyon mine and Ana Paula project (note 5).

The Company estimates that the updated cost to completion (“EAC”) for the Magino construction project is \$755,000 (Canadian dollars (“CA\$”) - CA\$980,000). At December 31, 2022, the Company had incurred costs of \$583,000, and estimates the project is 80.0% complete.

In 2022, the Company closed loan facilities of \$250,000 (note 11), and sold a net smelter return royalty on the Magino project for proceeds of \$52,500 (note 13), as a part of a funding program to be used for the Magino project. Additionally in 2022, the Company completed a \$149,795 (CA\$195,300) equity offering (note 16b), a \$10,000 private placement (note 16b), and an issuance of \$44,750 (CA\$57,560) in Canadian development expenditures flow-through common shares (note 16b), as a part of equity financings in order to establish sufficient funding to complete the construction of the Magino project.

On December 5, 2022, the Company announced that it had entered into a definitive agreement to sell the Ana Paula project. The Ana Paula project is classified as a disposal group with its assets and liabilities held for sale as at December 31, 2022 (note 5).

The registered office of the Company is located at One First Canadian Place, 100 King Street West, Suite 3400, 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.

The Company continues to experience risks associated with global inflation and volatility in foreign exchange rates. The Company has implemented a foreign exchange forward contracts program for Canadian dollars to mitigate the impact of volatility in the Canadian dollar to United States dollar exchange rate. The Company continues to monitor each of these risks and will execute timely and appropriate measures as necessary (note 26). Further, near term metal prices, exchange rates, discount rates and other key assumptions used in the Company’s accounting estimates are subject to greater uncertainty given the current economic environment. Changes in these assumptions could significantly impact the Company’s accounting estimates.

**2 SIGNIFICANT ACCOUNTING POLICIES**

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

**a) Basis of presentation**

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

These consolidated financial statements have been prepared in accordance with the significant accounting policies presented below and are based on the IFRS issued and effective as of December 31, 2022. The consolidated financial statements have been prepared under the historical cost convention, except for certain financial assets and financial liabilities measured at fair value.

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

These consolidated financial statements include the accounts of Argonaut Gold Inc. and its subsidiaries. Subsidiaries are entities over which the Company has control. The Company controls an entity where the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group.

Inter-company transactions and balances between the Company and its subsidiaries and between the Company's subsidiaries are eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Company's accounting policies.

These consolidated financial statements were authorized for issue by the Company's Board of Directors on February 26, 2023.

b) Segment reporting

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

c) Foreign currency translation

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

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

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

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

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each consolidated statements of financial position presented are translated at the closing rate at the date of that balance sheet,
- income and expenses for each consolidated statements of (loss) income and statement of comprehensive (loss) income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognized in other comprehensive (loss) income.

d) Business combinations

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

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

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

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

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

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

e) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

f) Marketable securities

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

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

g) Receivables and accounts payable

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

h) Inventories

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

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

i) Asset held for sale

Assets and liabilities held for sale represent the assets and liabilities of a disposal group when the underlying non-current assets will be recovered principally through a sale transaction that is highly probable and expected to be completed within one year, management is committed to the sale, and the underlying assets are available for immediate sale in their present condition subject only to terms that are usual and customary.

Assets and liabilities that are held for sale are presented as current assets and current liabilities in the statement of financial position. Classification as held-for-sale results in non-current assets being measured at the lower of carrying amount or fair value less direct costs of disposal ("FVLCD"). Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognized in the consolidated statements of (loss) income. Once classified as held for sale, mineral properties, plant and equipment are no longer amortized.

A discontinued operation is a component of the Company's business that either has been disposed of, or is classified as held for sale and represents a separate major group of business or geographical area of operations, is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale. Classification of a component of a business as a discontinued operation results in the reclassification of the after-tax income (loss) from discontinued operations for the comparative period being reclassified in the consolidated statements of (loss) income for the current period (note 5).

Management assesses the appropriateness of classification of the assets held for sale and discontinued operations on a periodic basis. If the assets and liabilities no longer meet the criteria of a disposal group, the assets and liabilities are reclassified back into the consolidated balances within the statement of financial position for the current year. Reclassification out of assets and liabilities as held for sale results in non-current assets being measured at the lower of carrying amount prior to classification as held-for-sale adjusted for amortization and the recoverable amount at the date of reclassification. Classification of a component of a business as no longer a discontinued operation results in the reclassification of the after-tax income (loss) from discontinued operation for the comparative period being re-presented in the consolidated statements of (loss) income (note 5).

j) Mineral properties, plant and equipment

i) Plant and equipment

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

ii) Exploration and evaluation assets

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

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

Exploration and evaluation expenditures for each area of interest are capitalized provided that one of the following conditions is met:

- exploration and evaluation activities in the area of interest have reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves or resources, and active and significant operations in relation to the area are continuing, or planned for the future; or
- such costs are expected to be recouped in full through successful exploration and development of the area of interest or alternatively, by its sale.

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

Proceeds received from a partial sale of, or option on, any interest in a mineral property are credited against the carrying value of that property. When the proceeds exceed the carrying costs, the excess is recorded in the consolidated statements of (loss) income in the period the excess is received (note 2j(iv)). When all of the interest in a property is sold, subject only to any retained royalty interests which may exist, the accumulated property costs are written-off, with any gain or loss included in the consolidated statements of (loss) income in the period the transaction takes place.

iii) Assets under construction

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

iv) Mineral properties and mine development costs

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

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

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

Proceeds from the sale of perpetual net smelter return ("NSR") royalties are bifurcated between the implied extraction obligation and the proceeds received representing an interest in the mineral property, which are recognized as a sale of an interest in a mineral property if transfer of control of the mineral interest has occurred. Upon recognition of the sale, a gain or loss is recognized for the difference between consideration received and the net carrying value of the interest sold and the mineral property is reduced accordingly.

v) Amortization of mineral properties, plant and equipment

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

- Plant and equipment - 1 to 30 years straight-line;
- Mineral properties and mine development costs - based on a unit-of-production basis over estimated proven and probable reserves;
- Assets under construction - not amortized; and
- Exploration and evaluation assets - not amortized.

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

vi) Borrowing costs

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

k) Impairment of non-current assets

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

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

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



l) Reclamation deposits

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

m) Debt

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

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

n) Convertible debentures

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

o) Leases

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance expense. The finance expense is charged to the consolidated statements of (loss) income over the lease period or capitalized as an asset under construction when they are considered applicable borrowing costs directly attributable to the construction of mineral properties, plant and equipment. The right-of-use asset is depreciated over the shorter of the asset's useful life or the life-of-mine ("LOM"), on a straight-line basis.

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

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

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

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

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

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); or
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Short-term leases are leases with a lease term of 12 months or less. Payments associated with short-term leases and leases of low-value assets are either expensed on a straight-line basis in the consolidated statements of (loss) income or capitalized as an asset under construction when they are considered applicable borrowing costs directly attributable to the construction of mineral properties, plant and equipment.

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

p) **Derivatives**

The Company only uses derivatives for economic hedging purposes and not as speculative investments (“Trading Derivatives”). However, where derivatives do not meet the hedge accounting criteria, they are classified as ‘held for trading’ for accounting purposes and are accounted for at fair value through profit or loss. The fair value of hedging derivatives is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12-months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12-months. If the Company did use Trading Derivatives their fair value would be classified as a current asset or liability.

Further information about the derivatives used by the group is provided in notes 11 and 26.

q) **Provisions**

*Reclamation provision*

Provision is made for closure, reclamation and environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the financial period when the related environmental disturbance occurs, based on the estimated future costs using information available at the date of the statement of financial position. At the time of establishing the provision, a corresponding asset is capitalized, where it gives rise to a future benefit, and depreciated over future production from the operations to which it relates.

For properties where mining activities have ceased or are in reclamation, changes to the reclamation provision are charged directly to the consolidated statements of (loss) income. The provision is discounted using a current market-based, risk-free discount rate and the accretion of the discount is included in finance expenses.

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

*Other provisions*

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

r) Deferred revenue

Deferred revenue arises where proceeds received in relation to sale of a mineral interest also are associated with future extraction services for the royalty or stream. The Company allocates proceeds to the extraction services associated with the recoverable value of the subject property interest, with any residual proceeds allocated to proceeds on the sale of a mineral property interest. The Company recognizes a significant financing component, if any, resulting from a difference in the timing of up-front consideration received and the expected future services. Interest expense on the stream deferral is recognized as a finance cost. The deferred revenue is recognized in revenue as extraction services are performed over the life of mine, on the basis of units of production.

s) Revenue recognition

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

t) Share-based compensation

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

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

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

u) Income taxes

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

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

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

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

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

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

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

v) Financial instruments

Financial instruments are recognized when the Company becomes party to a contractual obligation. At initial recognition, financial instruments are measured at fair value, net of the attributable transaction costs, except for financial assets and liabilities classified as FVTPL. The transaction costs attributable to assets and liabilities carried at FVTPL are expensed in the period in which they are incurred.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognized when the Company's obligations are discharged, cancelled, or expire.

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

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

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

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

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

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

#### *Impairment of financial assets*

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

#### w) Share capital

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

#### x) Flow-through common shares

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

#### y) Earnings (loss) per share

Basic earnings (loss) per share is calculated using the weighted average number of shares outstanding during the period. Contingently issuable shares are treated as outstanding and are included in the calculation of basic earnings (loss) per share only from the date when all necessary conditions are satisfied.

Shares that are issuable solely after the passage of time are not contingently issuable shares, because the passage of time is a certainty. PSUs are treated as contingently issuable shares because their issue is contingent upon satisfying specified conditions in addition to the passage of time.

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

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

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

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

#### *Functional currency*

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

#### *Deferred income taxes*

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

Tax judgments and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets recognized on the statement of financial position and the amount of other tax losses and temporary differences not yet recognized. In such circumstances, some or the entire carrying amount of recognized deferred tax assets may require adjustment, resulting in a corresponding credit or charge to the consolidated statements of (loss) income.

Deferred tax assets, including those arising from tax losses, capital losses and temporary differences, are recognized only where it is probable that taxable earnings will be available against which the losses or deductible temporary differences can be utilized. Assumptions about the generation of future taxable earnings and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, commodity prices, reserves, resources, operating costs, closure and decommissioning costs, capital expenditures, dividends and other capital management transactions.

*Stripping costs*

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

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

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

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

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

*Sale of royalties*

Judgement was required in assessing the appropriate accounting treatment for the NSR royalty sold (note 13), including characterization of the transaction, whether control has been transferred in the Magino mineral property interest, and whether the related services are distinct from the mineral interest. The assessment considered terms specific to the arrangement to determine what the counterparty was entitled to and the associated risks and rewards attributable to it over the life of the arrangement.

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

*Work-in-process inventory / Production costs*

The Company's management makes estimates of the expected recoverable ounces of gold on leach pads and the expected timing of recoveries in work-in-process inventory, which is also used in the determination of the cost of sales during the period. Expected recoverable ounces of gold on leach pads are determined based on the type of ore tonnes mined and placed on the leach pad, rock density, grams of gold per tonne and expected recovery rates.

Management relies on internal geological and metallurgical experts to develop estimates related to expected recoverable ounces of gold on leach pads and timing of recoveries. The Company monitors the ongoing recovery of gold ounces from the leach pads and may refine its estimates based on these results. Assumptions used in the net realizable value assessment include the estimated gold price at the time of sale, remaining costs of completion to bring inventory into its saleable form and discount rate. Changes in these estimates can result in a change in the carrying amount of inventories and future cost of sales.

#### *Mineral properties*

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

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

The Company reviews the carrying amounts of non-current assets whenever events or changes in circumstances indicate that the carrying amounts may exceed the estimated recoverable amounts. Recoverable amounts are determined by reference to relevant market data, discounted future cash flows, and in-situ fair value per ounce of gold equivalent mineral reserves and resources not considered in the discounted cash flow model. An impairment loss is recognized when the carrying amount of those assets is no longer considered recoverable. Non-current assets that were previously 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 CGU for non-current asset impairment tests requires management to make estimates and assumptions with respect to estimated recoverable mineral reserves and resources, metallurgical recovery estimates, estimated future commodity prices, future production volume, 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 mineral 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, capital and reclamation costs, and other key assumptions used in the Company's impairment assessment are subject to greater uncertainty given the current economic environment (note 1). Changes in these assumptions could significantly impact the valuation of the Company's assets in the future. During 2022, management identified impairment indicators with its exploration and evaluation assets, mineral properties, and plant and equipment, and management's impairment evaluation resulted in the Company recognizing an impairment of exploration and evaluation assets, mineral properties, and plant and equipment of \$135,547 in relation to the CGUs of the Florida Canyon, San Agustin, El Castillio and La Colorada mines (note 27) and the Ana Paula project (note 5).

#### *Reclamation provision*

Reclamation provision represents the present value of estimated future costs for the reclamation of the Company's mines and properties. These estimates include assumptions as to the future activities, cost of services, timing of the reclamation work to be performed, inflation rates, exchange rates and discount rates.



The actual cost to reclaim a mine may vary from the estimated amounts because there are uncertainties in factors used to estimate the cost and potential changes in regulations or laws governing the reclamation of a mine. Management periodically reviews the reclamation requirements and adjusts the liability as new information becomes available and will assess the impact of new regulations and laws as they are enacted.

#### *Contingencies*

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

#### *Deferred extraction obligation*

When the Company sells a partial interest in a mineral property to a party that is not a customer and the transaction includes an associated extraction obligation such as for a royalty or a stream, the Company allocates the proceeds based on its estimate of the value associated with the extraction obligation, with the residual allocated to the sale of the mineral property interest. In doing so, management makes estimates and assumptions with respect to the present value of future extraction costs consistent with assumptions in the determination of the recoverable value of mineral properties. This depends on estimates of recoverable reserves and resources, metallurgical recovery estimates, future production volumes, future metal prices, future extraction costs, and discount rates. On an ongoing basis, the Company will update the unrecognized balance based on changes to the estimated quantity and timing of future production. These estimates are subject to variability and have an impact on the timing and amount of revenue recognized.

## **4 RECENT ACCOUNTING PRONOUNCEMENTS**

#### *New and amended standards - applicable January 1, 2022*

The Company has applied the following amendments for the first time for their annual reporting period commencing January 1, 2022:

- Amendments to IAS 16 - *Property, Plant and Equipment: Proceeds before Intended Use*;
- Amendments to IAS 37 - *Onerous Contracts - Cost of Fulfilling a Contract*;
- Annual Improvements to IFRS Standards 2018-2020, and
- Reference to the Conceptual Framework - Amendments to IFRS 3 - *Business Combinations*.

The amendments listed above did not have any impact on the amounts recognized in prior and current periods, and are not currently expected to significantly affect future periods.

#### *New and amended standards not yet adopted*

In October 2020, the IASB published amendments to IAS 1 - *Presentation of Financial Statements - Classification of debt with covenants as current or non-current*. Under existing IAS 1 requirements, companies classify a liability as current when they do not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. As part of its amendments, the IASB has removed the requirement for a right to be unconditional and instead, now requires that a right to defer settlement must have substance and exist at the end of the reporting period. A company classifies a liability as non-current if it has a right to defer settlement for at least 12-months after the reporting period. This new requirement may change how companies classify their debt. The amendments clarify how a company classifies a liability that includes a counterparty conversion option, which could be recognized as either equity or a liability separately from the liability component under IAS 32 - *Financial Instruments Presentation*.

Generally, if a liability has any conversion options that involve a transfer of the company's own equity instruments, these would affect its classification as current or non-current. The IASB has now clarified that when classifying liabilities as current or non-current, a company can ignore only those conversion options that are recognized 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 IASB published amendments to IAS 12 - *Income Taxes*. The amendments will require companies to recognize deferred tax on particular transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The proposed amendments will typically apply to transactions such as leases for the lessee and decommissioning and restoration obligations related to assets in operation. The effective date is for annual periods beginning on or after January 1, 2023, with early adoption permissible. The Company is assessing the effect of the amendments on its consolidated financial statements.

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

## **5 ASSETS HELD FOR SALE**

On December 5, 2022, the Company entered into a binding purchase agreement with Heliostar Metals Limited ("Heliostar"), a publicly traded company listed on the TSX Venture Exchange, for the sale of all of the issued and outstanding shares of Aurea Mining Inc. ("Aurea Mining"), a wholly owned subsidiary of the Company, which, through Aurea Mining's wholly owned subsidiary Minera Aurea, S.A. de C.V. ("Minera Aurea"), holds a 100% indirect interest in the Ana Paula project title and permit to mine.

Under the terms of the purchase agreement, Heliostar has agreed to acquire all the issued and outstanding shares of Aurea Mining, in consideration for:

1. A cash payment to Argonaut of \$10,000 at closing;
2. On the earlier of (a) receiving an extension to the existing Ana Paula open-pit mining permit and (b) the granting of a new underground mining permit, the issuance to Argonaut of such number of common shares in the capital of Heliostar (each, a "Heliostar Share") as have an aggregate value of \$5,000 divided by the volume weighted average closing price ("VWAP") of the Heliostar Shares for the ten trading days ending on the last trading day immediately prior to the date of the purchase agreement;
3. On the earlier of (a) the date of completion of a feasibility study for the Ana Paula project and (b) July 1, 2024, a cash payment to the Company of \$2,000;
4. On the date that Heliostar announces a construction decision for the Ana Paula project, it will pay to the Company a cash payment of \$3,000 and \$2,000 in cash or Heliostar Shares at a price equal to the VWAP of the Heliostar Shares for the ten trading days immediately prior to announcement of the construction decision; and
5. On the date that Heliostar commences commercial production at the Ana Paula project, it will pay to Argonaut an additional \$5,000 in cash and \$3,000 in cash or Heliostar Shares at a price equal to the VWAP of the Heliostar Shares for the ten trading days immediately prior to announcement of commercial production.

The closing of the purchase agreement is subject to Heliostar's completion of financing and the receipt of regulatory approvals, which Heliostar has advised the Company that they expect to complete in the first half of 2023. In accordance with IFRS 5 - *Non-current Assets Held for Sale and Discontinued Operations*, the Ana Paula project meets the criteria to be classified as a disposal group held for sale as at December 31, 2022. At December 31, 2022, all assets and liabilities related to the Ana Paula project have been classified as held for sale and are presented in current assets and current liabilities in the consolidated statement of financial position. Upon reclassification of the Ana Paula project to a disposal group, the Company assessed the Ana Paula project for, and recorded an impairment, as at December 31, 2022 (note 27).

**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2022 and 2021****(Expressed in thousands of United States dollars, except where noted)**

The net assets of the Ana Paula disposal group as at December 31, 2022 are as follows:

	<b>December 31, 2022</b>
Cash and cash equivalents	\$ 1,467
Receivables	2,594
Prepaid expenses and other	41
Mineral properties, plant and equipment	13,300
<b>Assets held for sale</b>	<b>\$ 17,402</b>
Accounts payable and accrued liabilities	\$ 411
Income taxes payable	197
Deferred income taxes	747
Other liabilities	111
<b>Liabilities held for sale</b>	<b>\$ 1,466</b>
<b>Net assets</b>	<b>\$ 15,936</b>

**6 RECEIVABLES**

	December 31, 2022	December 31, 2021
Mexican value added tax receivable (Note 20)	\$ 13,399	\$ 18,958
Canadian value added tax receivable	10,435	11,037
Due from customer	1,080	1,687
Other receivables	837	337
	<b>\$ 25,751</b>	<b>\$ 32,019</b>

**7 INVENTORIES**

	December 31, 2022	December 31, 2021
Supplies	\$ 18,801	\$ 17,173
Work-in-process	74,364	86,243
Finished goods	1,077	1,074
	94,242	104,490
Non-current portion of work-in-process inventory	—	(2,976)
	<b>\$ 94,242</b>	<b>\$ 101,514</b>

Cost of inventories recognized as an expense in cost of sales for 2022 totaled \$364,513 (2021 - \$322,551). During 2022, the Company recognized an impairment of \$17,307 (2021 - an impairment reversal of \$2,693) at the El Castillo mining complex, an impairment of \$4,800 (2021 - \$nil ) at the Florida Canyon mine, and an impairment of \$772 (2021 - \$nil) at the La Colorada mine, related to the net realizable value of the work-in-process inventory. The recognition of the impairment and the impairment reversal was due to revisions in management's estimate of costs to convert the work-in-process inventory into saleable form, future recoverable ounces, the expected timing of recoveries of the inventory, and the future price of gold. The impairment and impairment reversal have been presented in a separate component of cost of sales in the consolidated statements of (loss) income.

**ARGONAUT GOLD INC.**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**For the years ended December 31, 2022 and 2021**
**(Expressed in thousands of United States dollars, except where noted)**
**8 MINERAL PROPERTIES, PLANT AND EQUIPMENT**

	Exploration and evaluation assets	Assets under construction (1)	Mineral properties (1)(2)(3)	Plant and equipment (1)(2)	Total <sup>(4)</sup>
<b>Cost</b>					
Balance at January 1, 2022	\$ 167,300	\$ 593,843	\$ 678,384	\$ 251,117	\$ 1,690,644
Additions	249	278,390	29,121	95,904	403,664
Disposals	—	—	—	(9,614)	(9,614)
Derecognition of mineral property (Note 13) <sup>(5)</sup>	—	(16,161)	—	—	(16,161)
Reclassification of assets held for sale (Note 5)	(39,098)	—	—	(1,439)	(40,537)
Adjustment on currency translation	—	(49,723)	—	(2,974)	(52,697)
Balance at December 31, 2022	128,451	806,349	707,505	332,994	1,975,299
<b>Accumulated depreciation, depletion, amortization and impairment</b>					
Balance at January 1, 2022	118,364	—	536,514	133,527	788,405
Additions	—	—	40,824	26,880	67,704
Disposals	—	—	—	(6,829)	(6,829)
Reclassification of assets held for sale	(15,782)	—	—	(1,076)	(16,858)
Impairment (Note 27) <sup>(6)</sup>	—	—	80,057	45,111	125,168
Adjustment on currency translation	—	—	—	(619)	(619)
Balance at December 31, 2022	102,582	—	657,395	196,994	956,971
Net book value at December 31, 2022	\$ 25,869	\$ 806,349	\$ 50,110	\$ 136,000	\$ 1,018,328
<b>Cost</b>					
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
<b>Accumulated depreciation, depletion, amortization and impairment</b>					
Balance at January 1, 2021	111,034	—	427,522	114,783	653,339
Additions	—	—	51,511	24,049	75,560
Disposals	—	—	—	(5,977)	(5,977)
Impairment <sup>(6)</sup>	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

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**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2022 and 2021****(Expressed in thousands of United States dollars, except where noted)**

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<sup>(1)</sup> During 2022, the Company recorded right-of-use asset additions of \$18,825 within plant and equipment (2021 - \$35,153) and \$nil within mineral properties (2021 - \$49) (note 12). During 2022, total depreciation on right-of-use assets within plant and equipment was \$12,654 (2021 - \$7,889). 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 12). During 2022, total depreciation on right-of-use assets within mineral properties was \$60 (2021 - \$60). As at December 31, 2022, the net book value of right-of-use assets was \$68,428 and \$112 within plant and equipment and mineral properties, respectively (December 31, 2021 - \$62,254 and \$172, respectively).

<sup>(2)</sup> At December 31, 2022, plant and equipment includes \$1,049 and mineral properties includes \$5,144 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.

<sup>(3)</sup> During 2022, the Company capitalized \$19,082 (2021 - \$11,909) of deferred stripping costs to mineral properties. The depreciation expense related to deferred stripping for 2022 was \$14,052 (2021 - \$17,723). Included in the mineral properties balance at December 31, 2022 is \$nil and \$24,051 (December 31, 2021 - \$10,576 and \$9,566) related to deferred stripping costs at the El Castillo mine complex and the La Colorada mine, respectively.

<sup>(4)</sup> The Company has pledged certain assets as collateral for its debt instruments (notes 11, 12).

<sup>(5)</sup> Pursuant to the sale of a NSR royalty on the Magino project, the Company derecognized \$16,161 of assets under construction related to the Magino project representing the estimated carrying value that has been sold (note 13).

<sup>(6)</sup> At December 31, 2022, the Company recognized an impairment of \$135,547 (2021 - \$65,483) within exploration and evaluation assets, mineral properties, and plant and equipment (note 27).

<sup>(7)</sup> In October 2021, the Company completed the purchase of additional concessions around the San Agustin mine for \$5,750 in cash, which were recorded in mineral properties.

*San Antonio option*

In December 2022, the Company entered into an Option Agreement with Heliostar, whereby Heliostar has been granted the option to acquire a 100% interest in and to the Company's San Antonio gold exploration stage project, located in Baja California Sur, Mexico. The term of the Option Agreement is for a three-year period, provided, however, the term may be extended for an additional 18-months in the event Heliostar is able to successfully acquire the required environmental permits to advance the San Antonio gold project. The consideration payable upon exercise of the option is summarized below:

1. A cash payment to Argonaut of \$80,000 in the event the average gold price is below \$1,800 per ounce for the six months preceding Heliostar exercising the option; or
2. A cash payment to Argonaut of \$120,000 in the event the average gold price is between \$1,800 per ounce to \$2,000 per ounce for the six months preceding Heliostar exercising the option; or
3. A cash payment to Argonaut of \$150,000 in the event the average gold price is above \$2,000 per ounce for the six months preceding Heliostar exercising the option; and
4. Granting Argonaut a 2% NSR royalty in the event of exercise of the option (capped at 2% for claims with existing NSR considerations).

During 2019, the Mexican Environmental Authority issued a ruling not to approve the Environmental Impact Assessment for the Company's San Antonio project. As a result of this decision and the uncertainty over the timing of the Company's ability to advance the project, the Company recorded an impairment of \$111,034 in the year ended December 31, 2019 to write-down the carrying amount of the project.

**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2022 and 2021****(Expressed in thousands of United States dollars, except where noted)****9 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 December 31, 2022, the reclamation deposits are carried at fair value of \$2,792 (December 31, 2021 - \$3,243) and consist of \$35 of cash, \$802 of fixed-income funds, and \$1,955 of equity funds. During 2022, interest income was \$49 (2021 - \$160) and the Company recorded a loss on funds of \$501 (2021 - a gain on funds of \$289). During 2021, the Company received notice that \$5,664 of the reclamation deposits were released to the Company. On release of these deposits, the \$5,664 was deposited to the Company's cash and cash equivalents at that time.

**10 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	December 31, 2022	December 31, 2021
Trade accounts payable	\$ 33,294	\$ 62,839
Accrued liabilities	60,997	41,530
	<u>\$ 94,291</u>	<u>\$ 104,369</u>

At December 31, 2022, accounts payable and accrued liabilities included \$47,328 (December 31, 2021 - \$45,234) related to mineral properties, plant and equipment additions. At December 31, 2022, accrued liabilities also included \$223 (December 31, 2021 - \$222) of accrued interest on convertible debentures (note 11).

**11 DEBT**

	December 31, 2022	December 31, 2021
Historical credit facility - ARCF	\$ —	\$ 80,000
Loan facilities - term loan	77,582	—
Convertible debentures debt liability	47,409	44,650
Convertible debentures derivative liability	995	11,461
Magino project equipment loan	1,807	—
	<u>\$ 127,793</u>	<u>\$ 136,111</u>
Current portion of debt	\$ 350	\$ —
Non-current portion of debt	<u>\$ 127,443</u>	<u>\$ 136,111</u>

*Loan facilities*

In October 2022, the Company closed a \$250,000 financing package (collectively referred to as the “Loan Facilities”) for the ongoing development and construction of the Magino project. The Loan Facilities consist of a term loan of \$200,000 (referred to as the “Term Loan”) and a revolving credit facility of \$50,000 (referred to as the “Revolving Credit Facility”).

The Company incurred transaction costs and upfront fees of \$7,909 on closing of the Loan Facilities, which were proportionally allocated between the Term Loan (\$6,327) and Revolving Credit Facility (\$1,582) based on the proportionate share of expected drawdowns.

The transaction costs are being amortized separately over the life of the Term Loan and the Revolving Credit Facility, and have been presented as a reduction in the outstanding balance of each, when drawn, and presented in prepaid expenses and other assets, when undrawn. The Loan Facilities are secured by the mineral properties and related plant and equipment of the Company, excluding the Company's Cerro del Gallo project, the San Antonio project, and the Ana Paula project.

The Company is subject to both financial and nonfinancial covenants in relation to the Loan Facilities. The covenants include those that require the Company to maintain certain tangible net worth and ratios for leverage and interest coverage. The Company was in compliance with all covenants as at December 31, 2022. Certain conditions precedent to the closing of the Loan Facilities included the Company entering into unsecured forward gold sales contracts (note 25), and foreign exchange contracts (note 26).

#### Loan Facilities - Term Loan

The Term Loan matures on June 30, 2028 and is to be repaid in set quarterly repayment amounts of the outstanding balance commencing on December 31, 2023, with no penalty for voluntary prepayment. The Term Loan bears interest at 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 ("Adjusted Term SOFR") plus 6.0% per annum. Interest is to be accrued based on the timing of the drawdown and is to be paid on the quarterly dates of principal repayment.

The Term Loan is available to the Company in the form of drawdown tranches electable by the Company, subject to the satisfaction of certain drawdown conditions subject to the satisfaction of certain drawdown conditions.

During 2022, capitalized interest and accretion expense on the Term Loan was \$1,444 and \$112, respectively. Interest and accretion is capitalized to the Magino project until such time it is ready for its intended use.

As at December 31, 2022, the Company had drawn \$80,000 under the Term Loan, which resulted in \$120,000 remaining undrawn, and had unamortized transaction costs allocated to the Term Loan of \$2,418.

#### Loan Facilities - Revolving Credit Facility

The Revolving Credit Facility matures on October 27, 2025 and bears interest at 1.25% per annum on the committed but undrawn portions, and a rate on drawn portions equal to the Adjusted Term SOFR plus 6.0% per annum. Interest is to be accrued based on the timing of the drawdown and is to be paid on the quarterly dates of principal repayment of the Term Loan. The entire drawn amount is due on the maturity date of the Revolving Credit Facility. The Revolving Credit Facility is available to the Company in the form of drawdown tranches subject to the satisfaction of certain drawdown conditions, at the election of the Company.

As at December 31, 2022, the Company had not drawn funds on the Revolving Credit Facility, and had unamortized transaction costs allocated to the Revolving Credit Facility of \$1,582.

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**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2022 and 2021****(Expressed in thousands of United States dollars, except where noted)**

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*Historical credit facility - ARCF*

Effective October 2020, the Company had a \$125,000 amended revolving credit facility (“ARCF”), including a \$25,000 accordion feature, with a syndicate of banks. The ARCF interest rate was determined based on a scale ranging from the London Interbank Offered Rate (“LIBOR”), or an alternative benchmark rate as selected by the administrative agent, 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 secured by certain of the Company’s assets and was subject to various covenants, including those that require the Company to maintain certain tangible net worth and ratios for leverage and interest coverage, and had a commitment reduction date beginning April 30, 2023.

During 2022, capitalized interest expense on the ARCF was \$2,489 (2021 - \$161). Interest was capitalized towards the Magino project until such time it is ready for its intended use.

The ARCF was not utilized by the Company until it drew \$80,000 in December 2021, which remained drawn and outstanding until October 27, 2022 when the ARCF was settled and replaced by the Loan Facilities.

*Convertible debentures*

In October 2020, the Company issued unsecured convertible debentures with an aggregate amount of \$57,500 (the “Convertible Debentures”). At December 31, 2022, the Company had \$57,480 (December 31, 2021 - \$57,480) of the Convertible Debentures outstanding. The Convertible Debentures mature on November 30, 2025 and bear interest at 4.625% per annum, payable semi-annually. The Convertible Debentures are not redeemable by the Company before November 30, 2023. The Company used the net proceeds of the Convertible Debentures for the advancement of the Magino project.

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

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

At December 31, 2022, the fair value of the conversion feature, which is a derivative liability, was estimated at \$995 (December 31, 2021 - \$11,461). The value was determined using the Partial Differential Equation model with the following assumptions:

	December 31, 2022		December 31, 2021	
Share price	CA \$	0.52	CA \$	2.40
US\$-CA\$ exchange rate		0.7378		0.7917
Translated US\$ share price	\$	0.38	\$	1.90
Volatility		83.03 %		46.66 %
Risk free rate		4.42 %		1.29 %
Credit spread		9.21 %		8.69 %
All-in rate		13.63 %		9.98 %



**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2022 and 2021****(Expressed in thousands of United States dollars, except where noted)**

The following table summarizes changes to the Company's Convertible 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	(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	5,418	—	5,418
Reversal of prior year accrued interest	222	—	222
Change in fair value of derivative liability component	—	(10,466)	(10,466)
Interest paid	(2,658)	—	(2,658)
Accrued interest recorded in accrued liabilities	(223)	—	(223)
Balance at December 31, 2022	\$ 47,409	\$ 995	\$ 48,404

During 2022, capitalized interest and accretion expense on the Convertible Debentures was \$5,418 (2021 - \$5,114). Interest and accretion is capitalized towards the Magino project until the time where it is ready for its intended use.

*Magino project equipment loan*

In September 2022, the Company entered into a purchase and financing agreement with a supplier for heavy equipment to be used at the Magino project. The agreement includes a loan financing arrangement for four units of equipment with each unit to be delivered according to a staged schedule. The loan is secured by the units inclusive to the loan. The first unit was received by the Company in September 2022, and was placed in use in October 2022. The remaining units are expected to be delivered between July 2023 and October 2024. The financing arrangement per unit is for a 60-month term beginning on each unit's delivery date, bearing an interest rate of 4.50%, and payable on a monthly basis with a blended principal and interest payment. In totality, the commitment for the equipment loan will be for \$4,092. At December 31, 2022, the equipment loan had an outstanding balance of \$1,807.

**12 LEASE LIABILITIES**

	December 31, 2022	December 31, 2021
Florida Canyon mine leases	\$ 30,944	\$ 36,986
Magino project leases	20,977	17,033
Other operating leases	584	918
	\$ 52,505	\$ 54,937
Current portion of lease liabilities	\$ 20,448	\$ 17,477
Non-current portion of lease liabilities	\$ 32,057	\$ 37,460

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**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2022 and 2021****(Expressed in thousands of United States dollars, except where noted)**

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Certain leases 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 was \$53,279 for 2022 (2021 - \$44,980).

*Florida Canyon mine leases*

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 the 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 value of \$10,787. The revaluation of the Amended Lease Agreement relating to the original Florida Canyon Equipment resulted in an 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 for each unit, with lease terms ending between June 2024 and August 2026.

During 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.

At December 31, 2022, the Company assessed the valuation of the Florida Canyon mine leases and determined that there was a \$1,294 (December 31, 2021 - \$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.

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

Balance at 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 at December 31, 2021		36,986
New equipment		3,486
Interest		1,472
Payments - principal and interest		(12,294)
Change in estimated cash flows and assumptions		1,294
Balance at December 31, 2022	\$	30,944
Current portion of equipment lease liabilities	\$	12,891
Non-current portion of equipment lease liabilities	\$	18,053

The Florida Canyon Equipment is being amortized on a straight-line basis over the life of the mine to an estimated recoverable amount of \$100 for each truck and loader. During 2022, the Company recorded depreciation on the Florida Canyon Equipment of \$5,738 (2021 - \$4,902).

*Magino project leases*

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

- During 2022, the Company entered into individual lease agreements with vendors for seven units of heavy equipment, consisting of six trucks and loaders, and one drill rig. The leases contain a 48-month term and bear a range of implicit interest rates from 4.65% to 5.95% for the trucks and loaders, and 4.90% for the drill rig. The initial recognition of the value of these leases was \$14,086. During 2022, the Company bought out the lease for one of these units for \$388 and disposed of the unit through a sale.
- During 2021, the Company entered into individual lease agreements with a single vendor for 22 units of equipment, consisting of 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, consisting of 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 2022, the units with matured lease terms were purchased through the buyout provisions in the lease agreements for a nominal value.
- During 2021, the Company entered into a lease agreement for 13 dorm and container units. The lease was for a 18-month term and was valued using an interest rate of 4.50%, which was the Company's deemed incremental borrowing rate. The initial recognition of the value of the lease was \$1,180.
- During 2021, the Company entered into a lease agreement for certain land and buildings. The lease was for a 36-month term and was valued using an interest rate of 4.50%, which was 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 initial estimated terms of the various leases.

**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2022 and 2021****(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 Magino project:

Balance at December 31, 2020	\$	—
Capitalization of Magino Leases		20,720
Interest		283
Payments - principal and interest		(3,982)
Adjustment on currency translation		12
Balance at December 31, 2021		17,033
Capitalization of Magino Leases		14,474
Lease buyout		(388)
Interest		951
Payments - principal and interest		(9,506)
Adjustment on currency translation		(1,587)
Balance at December 31, 2022	\$	20,977
Current portion of Magino Leases liabilities	\$	7,185
Non-current portion of Magino Leases liabilities	\$	13,792

The right-of-use assets associated with the Magino Leases are being amortized on a straight-line basis over the expected remaining useful lives of each unit to each unit's estimated net recoverable value. During 2022, the Company capitalized depreciation on the right-of-use assets associated with the Magino Leases of \$6,445 (2021 - \$2,737) (note 8).

*Other operating leases*

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

	December 31, 2022	December 31, 2021
Current portion of lease liabilities	\$ 372	\$ 437
Non-current portion of lease liabilities	212	481
	\$ 584	\$ 918

During 2022, the Company recorded depreciation on other operating leases of \$530 (2021 - \$310).

**13 NET SMELTER RETURN ROYALTY**

On October 27, 2022, the Company closed the sale of a 2.0% NSR royalty (referred to as the "Royalty Sale") on the Magino project and surrounding land package to the Franco-Nevada Corporation ("Franco-Nevada") for \$52,500, which shall be used only for the construction and advancement of the Magino project.

The Company has recognized the transaction as a sale of a mineral property interest and an implied extraction obligation and accordingly has deferred the portion of proceeds attributed to the implied extraction obligation as deferred revenue. Transaction costs associated with the completion of the Royalty Sale were expensed in consolidated statements of (loss) income for 2022.

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The Company determined the carrying value of the mineral property interest disposed of as the estimated proportion of the carrying value that has been sold. The Company determined the carrying value of the disposed portion of the Magino project to be \$16,161, with \$14,951 of the gross proceeds received allocated to this component, and recognized a loss of \$1,210 in the consolidated statements of (loss) income for 2022.

The deferred consideration component has been determined based on a valuation methodology using a 6.0% discount rate and a 5.0% extraction services margin, to signify the value of extraction services being performed over the LOM. The Company determined this deferred consideration to be \$37,549.

**14 RECLAMATION PROVISION**

The Company's reclamation provision relates to the restoration and closure of its mineral properties, plant and equipment, primarily related to the Company's operating mines and its construction stage project. The reclamation provision has been recognized at net present value. The Company reviews and, if necessary, adjusts provisions at each reporting date. The total provision for reclamation at December 31, 2022 is \$91,619 (December 31, 2021 - \$99,052). The undiscounted value of this obligation is \$130,102 (December 31, 2021 - \$122,554), calculated using annual inflation rates of 2.0% to 3.1% (December 31, 2021 - 2.1% to 2.5%). In 2022, accretion expense of \$867 (2021 - \$376) was recognized to reflect an increase in the carrying amount of the reclamation provision, which has been determined using discount rates specific to the liabilities of 2.9% to 3.1% (December 31, 2021 - 0.1% to 1.7%).

	December 31, 2022	December 31, 2021
Balance at the beginning of the year	\$ 99,052	\$ 54,202
Additions <sup>(1)</sup>	4,278	—
Accretion expense	867	376
Reclamation expenditures <sup>(2)</sup>	(9,640)	(890)
Revisions in estimates <sup>(3)</sup>	(721)	44,587
Adjustment on currency translation	(2,217)	777
Balance at the end of the year	\$ 91,619	\$ 99,052
Current portion of reclamation provision	\$ 21,276	\$ 16,044
Non-current portion of reclamation provision	\$ 70,343	\$ 83,008

<sup>(1)</sup> During 2022 the additions to the reclamation provision are for the Magino project.

<sup>(2)</sup> During 2022 the reclamation expenditures are comprised of \$515 (2021 - \$nil) at the La Colorada mine, \$394 (2021 - \$nil) at the El Castillo mining complex, and \$8,731 (2021 - \$890) at the Magino project.

<sup>(3)</sup> The revisions in estimates for 2022 are comprised of an increase of \$664 at La Colorada (2021 - \$939 increase), an increase of \$2,870 at the El Castillo mining complex (2021 - \$122 increase), a decrease of \$3,926 at the Florida Canyon mine (2021 - \$1,735 increase), and a decrease of \$329 at the Magino project (2021 - \$41,791 increase). Included in other income for 2022 is a recovery of \$438 (2021 - \$413 expense) reflecting revised estimated costs related to a section of the La Colorada and Florida Canyon mines where mining activities have ceased.

**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2022 and 2021****(Expressed in thousands of United States dollars, except where noted)****15 INCOME TAXES**

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

	2022	2021
Current income tax expense	\$ 3,470	\$ 34,812
Deferred income tax expense (recovery)	4,773	(18,805)
	\$ 8,243	\$ 16,007

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

	2022	2021
(Loss) income before income taxes	\$ (143,959)	\$ 42,536
Canadian federal and provincial income tax rate	26.5 %	26.5 %
Income tax (recovery) expense based on Canadian federal and provincial income tax rates	(38,149)	11,272
Increase (decrease) attributable to:		
Change in unrecognized deferred tax assets	36,935	(5,719)
Effects of different foreign statutory tax rates on earnings of subsidiaries	114	7,415
Impact of Mexican inflation on tax values	(2,107)	(3,297)
Impact of Mexican Special Mining Duty and Nevada net proceeds tax	4,033	3,807
Flow-through share renunciation	6,314	2,665
Non-taxable portion of foreign exchange	(420)	(5,440)
Impact of foreign exchange on deferred income taxes	(1,224)	5,162
Foreign withholding taxes	103	(2,628)
Non-deductible expenses	3,192	2,210
Adjustments related to prior periods	(355)	721
Other	(193)	(161)
Income tax expense	\$ 8,243	\$ 16,007
Effective tax rate	-5.7 %	37.6 %

**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2022 and 2021****(Expressed in thousands of United States dollars, except where noted)**

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

	2022	2021
Deferred income tax assets		
Unused non-capital losses	\$ 10,652	\$ 28,788
Lease liabilities	6,666	7,935
Derivative liabilities	—	377
Reclamation provision	9,321	6,830
Share-based compensation	1,711	1,387
Mexican Special Mining Duty deduction	2,770	3,639
Inventories	1,294	—
NSR royalty	13,913	—
Other	(4,124)	—
	42,203	48,956
Deferred income tax liabilities		
Mineral properties, plant and equipment	(41,276)	(42,326)
Inventories	—	(1,483)
Other	—	1,546
	(41,276)	(42,263)
Deferred income tax assets, net	\$ 927	\$ 6,693

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

	2022	2021
Deferred income tax assets	\$ 4,198	\$ 13,010
Deferred income tax liabilities	(3,271)	(6,317)
Deferred income tax assets, net	\$ 927	\$ 6,693

- e) Management believes that sufficient uncertainty exists regarding the realization of certain deferred tax assets such that they have not been fully recognized. The tax benefits not recognized reflect management's assessment regarding the future realization of Canadian, Mexican and United States tax assets and estimates of future earnings and taxable income in these jurisdictions as of December 31, 2022. As at December 31, 2022, the Company and its subsidiaries had unrecognized Canadian operating loss carry-forwards of \$69,405 which expire between the years 2026 and 2041.

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**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2022 and 2021****(Expressed in thousands of United States dollars, except where noted)**

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

	2022	2021
Unused tax losses	\$ 171,267	\$ 135,399
Preproduction investment tax credits	—	5,109
Cumulative eligible capital	811	878
Mineral properties, plant and equipment	80,033	48,449
Net capital losses <sup>(1)</sup>	1,324	2,810
Financing costs	—	1,651
Intercompany balances	(5,968)	1,634
Inventory	15,535	—
Reclamation provision	48,514	64,203
Lease liabilities	—	17,034
Other	54,221	5,454
	<u>\$ 365,737</u>	<u>\$ 282,621</u>

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



**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2022 and 2021****(Expressed in thousands of United States dollars, except where noted)****16 SHAREHOLDERS' EQUITY**

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

b) Issued and outstanding share capital:

	Number of shares	Amount
Balance at January 1, 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 on exercise of Alio Replacement Options (Note 16d)	513,052	1,226
Issuance of common shares for services provided on Magino	50,000	142
Issuance of common shares for converted debentures	7,002	20
Restricted share units issued to employees, net of shares withheld <sup>(1)</sup>	669,684	918
Performance share units issued to employees, net of shares withheld <sup>(2)</sup>	146,719	213
Stock options exercised (Note 16c)	136,028	254
Balance at December 31, 2021	311,197,075	1,031,827
Issuance of common shares by way of equity offering	434,000,000	141,437
Issuance of flow-through shares	55,717,500	43,350
Issuance of common shares by way of private placement	34,693,462	9,974
Issuance of common shares related to community agreements	699,034	201
Restricted share units issued to employees, net of shares withheld <sup>(1)</sup>	507,964	717
Performance share units issued to employees, net of shares withheld <sup>(2)</sup>	462,397	573
Deferred share units released to a director, net of shares withheld <sup>(3)</sup>	59,473	108
Stock options exercised (Note 16c)	839,347	1,205
Balance at December 31, 2022	838,176,252	\$ 1,229,392

<sup>(1)</sup> During the year ended December 31, 2022, 196,209 vested restricted share units (2021 - 330,562) were withheld to satisfy tax withholding requirements under the Company's net settlement feature for vested restricted share units.

<sup>(2)</sup> During the year ended December 31, 2022, 149,752 vested performance share units (2021 - 75,944) were withheld to satisfy tax withholding requirements under the Company's net settlement feature for vested performance share units.

<sup>(3)</sup> During the year ended December 31, 2022, 27,541 released deferred share units (2021 - nil) were withheld to satisfy tax withholding requirements under the Company's net settlement feature for released deferred share units.

*Equity offering*

In July 2022, the Company completed a marketed offering (the “Offering”), with a syndicate of agents, of 434,000,000 common shares of the Company at a price of CA\$0.45 per offered share, for gross proceeds of \$149,795 (CA\$195,300). Transaction costs related to the Offering were \$8,358 (CA\$10,488), resulting in net proceeds to the Company of \$141,437 (CA\$184,812).

*Private placement*

In October 2022, in connection with the sale of the NSR royalty on the Magino project to Franco-Nevada (note 13), the Company completed a \$10,000 private placement by issuing 34,693,462 common shares of the Company to Franco-Nevada at a price of CA\$0.3905 per common share, for gross proceeds of \$10,000. Transaction costs related to the private placement were \$26, resulting in net proceeds to the Company of \$9,974.

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 \$22 (CA\$28), resulting in net proceeds to the Company of \$7,895 (CA\$9,972).

*Community agreements*

During the year ended December 31, 2022, the Company issued 699,034 common shares (2021 - 809,717 common shares) as part of community agreements associated with the Magino project.

*Flow-through common shares*

In November 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, 35,937,500 CDE Flow-Through Shares at CA\$0.48 per share for total gross proceeds of \$12,921 (CA\$17,250). Share issuance costs of \$839 (CA\$1,123) were incurred in relation to the offering, resulting in net proceeds to the Company of \$12,082 (CA\$16,127). 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 \$9,817 and flow-through share premium of \$2,265. During the period to December 31, 2022, the Company used \$10,022 (CA\$13,550) to fund development of the Magino project, with the Company required to incur the remainder of the expenditures before May 31, 2023. As at December 31, 2022, the remaining flow-through share premium liability was \$508 (CA\$647).

In March 2022, the Company closed an offering of CDE Flow-Through Shares of the Company 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 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 \$26,897 and flow-through share premium of \$3,199.

During the year ended December 31, 2022, the Company used all of the proceeds to fund development of the Magino project, achieving the development expenditure requirements and as such at December 31, 2022, the remaining flow-through share premium liability was \$nil (CA\$nil).

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 year ended December 31, 2022, the Company used \$8,421 (CA\$11,248) 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 December 31, 2022, the remaining flow-through share premium liability was \$150 (CA\$63).

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 2021 and 2022, the Company used \$741 (CA\$938) of the proceeds to fund exploration activities in a joint operation in Quebec, Canada and at the Magino project, achieving its exploration expenditure requirements and as such at December 31, 2022, the remaining flow-through share premium liability was \$nil (CA\$nil).

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 of the Company as stock options, restricted shares, RSUs, PSUs, DSUs, and any other share-based compensation arrangements is 7.25% of the total common shares issued and outstanding.

**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2022 and 2021****(Expressed in thousands of United States dollars, except where noted)***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 life of ten years. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

The following table summarizes information relating to stock options outstanding and exercisable at December 31, 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	788,672	3.01	\$ 1.11	788,672	\$ 1.11
1.32 - 2.40	692,456	6.73	1.64	533,516	1.61
2.41 - 4.00	861,363	3.83	2.54	830,839	2.53
4.01 - 9.11	245,026	0.74	6.32	245,026	6.32
\$ 1.10 - 9.11	2,587,517	4.06	\$ 2.22	2,398,053	\$ 2.25

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
Granted	100,000	1.15
Exercised	(839,347)	1.21
Forfeited	(892,948)	3.46
Expired	(105,254)	8.53
Outstanding at December 31, 2022	2,587,517	\$ 2.22

The weighted average share price at the time of exercise for 2022 was CA\$2.41 per share (2021 - CA\$2.90 per share).

The total share-based compensation related to stock options granted by the Company for 2022 was \$83 (2021 - \$216). As at December 31, 2022, there was \$18 of unamortized stock-based compensation expense related to stock options granted (December 31, 2021 - \$125).

**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2022 and 2021****(Expressed in thousands of United States dollars, except where noted)**

The following assumptions were used in computing the fair value of stock options granted for the years ended December 31, 2022 and 2021:

	2022		2021	
Weighted average share price	CA \$	1.15	CA \$	2.44
Expected dividend yield		Nil		Nil
Expected volatility		68.6%		62.9%
Risk-free interest rate		2.9%		0.6%
Estimated forfeiture rate		17.1%		11.9%
Expected life		3 years		5 years
Weighted average fair value per stock option granted	CA \$	0.54	CA \$	1.28

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 <sup>(1)</sup>	2,472,237	1.50
Vested <sup>(2)</sup>	(704,173)	1.83
Forfeited	(398,931)	2.19
Outstanding at December 31, 2022	2,792,512	\$ 1.55

<sup>(1)</sup> The 2,472,237 RSUs granted during the year ended December 31, 2022 were all granted to employees (year ended December 31, 2021 - 1,014,195 to employees).

<sup>(2)</sup> The 704,173 RSUs vested during the year ended December 31, 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, 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 2022 was \$1,496 (2021 - \$872). As at December 31, 2022, there was \$1,017 of unamortized stock-based compensation expense related to RSUs (December 31, 2021 - \$609).

**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2022 and 2021****(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 tax authorities on behalf of the employee. As at December 31, 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 December 31, 2022, the Company estimates that it would have had to transfer approximately \$268 (2021 - \$668) 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	1,373,072	1.78
Vested	(612,149)	2.11
Forfeited	(316,914)	4.00
Outstanding at December 31, 2022	1,939,935	\$ 1.45

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 2022 was \$1,369 (2021 - \$591). As at December 31, 2022, there was \$562 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
Released	(87,014)	2.33
Outstanding at December 31, 2022	563,960	\$ 2.34

**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2022 and 2021****(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 year ended December 31, 2022, the Company settled the release of 87,014 DSUs by issuing 59,473 common shares of the Company and withholding 27,541 common shares to satisfy the tax withholding requirements.

The total share-based compensation expense related to DSUs for 2022 was an expense of \$598 (2021 - \$598).

d) **Alio Replacement Options**

Upon the acquisition of Alio, the Company exchanged Alio options into 3,121,352 Argonaut options (the "Alio Replacement Options"). At December 31, 2022, the Company had outstanding Alio Replacement Options.

The following table summarizes the Alio Replacement Option activity:

	Options	Weighted average exercise price (CA\$)
Outstanding at January 1, 2021	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	(16,080)	6.53
Outstanding at December 31, 2022	101,114	\$ 4.08

The weighted average share price at the time of exercise for 2021 was CA\$2.92 per share. The Alio Replacement Options have expiry dates ranging from January 2023 to February 2028.

The following table summarizes information relating to Alio Replacement Options outstanding and exercisable at December 31, 2022:

Exercise price per share (CA\$)	Number outstanding and exercisable	Weighted average remaining contractual life (years)	Weighted average exercise price (CA\$)
\$ 1.06 - 4.00	32,705	1.58	\$ 1.59
4.01 - 7.00	54,806	3.07	4.07
7.01 - 10.10	13,603	3.61	10.10
\$ 1.06 - 10.10	101,114	2.66	\$ 4.08

**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2022 and 2021****(Expressed in thousands of United States dollars, except where noted)****17 SHARES OUTSTANDING**

	2022	2021
Basic weighted average shares outstanding	552,547,321	307,975,052
Weighted average shares dilution adjustments: <sup>(1)(2)</sup>		
Stock options	—	726,412
Restricted share units	—	1,804,741
Performance share units	—	1,574,686
Deferred share units	—	280,968
Diluted weighted average shares outstanding	552,547,321	312,361,859
Antidilutive securities	28,082,940	20,751,453

<sup>(1)</sup> Impact of dilutive stock options and other share-based compensation arrangements were determined using the Company's weighted average share price for 2022 of CA\$1.20 (2021 - CA\$2.85).

<sup>(2)</sup> As a result of the net loss incurred during the year ended December 31, 2022, stock options and other share-based compensation arrangements have been excluded from the calculation of diluted loss per share as they were anti-dilutive.

**18 PRODUCTION COSTS BY NATURE**

	2022	2021
Mining	\$ 131,048	\$ 121,842
Crushing	30,147	29,740
Processing	92,246	77,535
Mine general and administrative and royalties	30,622	27,397
Refining and desorption	7,606	8,958
Change in inventories	(13,376)	(11,722)
	\$ 278,293	\$ 253,750

**19 FINANCE EXPENSES**

	2022	2021
Interest	\$ 2,419	\$ 1,714
Accretion on other liabilities	99	103
Accretion on reclamation provision (Note 14)	867	376
Amortization of debt financing and transaction costs	282	175
Other finance expenses	—	470
	\$ 3,667	\$ 2,838



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**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2022 and 2021****(Expressed in thousands of United States dollars, except where noted)**

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**20 OTHER (EXPENSE) INCOME**

	2022	2021
Foreign exchange loss	\$ (8,662)	\$ (2,773)
Transaction costs on financing alternatives	(2,334)	—
Loss on sale of mineral property (Note 13)	(1,210)	—
Loss on sale of marketable securities <sup>(1)</sup>	(534)	—
Revaluation of marketable securities	(46)	(1,950)
Gain on sale of net smelter return royalty <sup>(2)</sup>	—	2,250
Gain on settlement of receivables from acquisition <sup>(3)</sup>	—	1,751
Other income <sup>(4)</sup>	120	1,031
	<b>\$ (12,666)</b>	<b>\$ 309</b>

<sup>(1)</sup> During March 2022, the Company disposed in full its marketable securities obtained 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 \$534 during the year ended December 31, 2022, respectively.

<sup>(2)</sup> During 2021, the Company sold a 2.5% NSR on the La Fortuna property that it had retained on the sale of this non-core exploration property in 2016. The Company received \$2,250 in gross consideration for the sale of the NSR, less transaction costs of \$25, for net proceeds of \$2,225, received fully in cash.

<sup>(3)</sup> During 2021, the Company received total proceeds of \$7,675 and recognized a gain on settlement of receivables from acquisition of \$1,751 over the book value of components comprising the receivables from acquisition.

<sup>(4)</sup> During 2022, the Company incurred a write-down expense of \$1,481 for uncollectible Mexican value added tax receivable (2021 - \$nil).

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**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2022 and 2021****(Expressed in thousands of United States dollars, except where noted)**

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**21 SUPPLEMENTAL CASH FLOW INFORMATION**

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

	2022	2021
Decrease in expenditures on mineral properties, plant and equipment related to an increase in accounts payable and accrued liabilities	\$ (2,094)	\$ (38,801)
Decrease in expenditures on mineral properties for change in estimate of reclamation provision (Note 14)	(282)	(44,174)
Fair value of leases capitalized as equipment additions	18,825	35,202
Fair value of common shares issued related to community agreements capitalized as mineral property additions	201	1,590
Fair value of RSUs allocated from contributed surplus to share capital upon vesting	717	918
Fair value of PSUs allocated from contributed surplus to share capital upon vesting	573	213
Fair value of DSUs allocated from contributed surplus to share capital upon settlement	108	—
Fair value of common shares issued for services provided on the Magino project	—	142

**22 SEGMENT INFORMATION**

Operating segments are those operations whose operating results are reviewed by the chief operating decision-maker (the Chief Executive Officer) to make decisions about resources to be allocated to the segments and assess their performance, provided those operations pass certain quantitative thresholds, or are deemed significant by management. In order to determine if operating segments shall be aggregated, management reviews various factors, including economic characteristics, nature of their products, production process, regulatory environment, geographical location and managerial structure. After aggregation criteria have been considered, operations whose revenues, earnings or assets exceed 10% of the total consolidated revenues, earnings or assets are considered to be reportable segments. Certain operations that do not meet any of the quantitative thresholds may still be considered reportable segments if deemed significant by management. The producing El Castillo and San Agustin mines have been aggregated into the El Castillo mining complex reportable segment. 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 2022, sales were to three customers (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 December 31, 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).

**ARGONAUT GOLD INC.**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**
**For the years ended December 31, 2022 and 2021**
**(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
Year ended December 31, 2022							
Revenue	\$ 210,359	\$ 80,917	\$ 97,065	\$ —	\$ —	\$ —	\$ 388,341
Production costs	147,085	48,422	82,786	—	—	—	278,293
Depreciation, depletion and amortization	41,772	9,875	11,694	—	—	—	63,341
Inventory impairment (Note 7)	17,307	772	4,800	—	—	—	22,879
Total cost of sales	206,164	59,069	99,280	—	—	—	364,513
Gross profit (loss)	4,195	21,848	(2,215)	—	—	—	23,828
Exploration expenses	533	—	—	—	—	3,371	3,904
General and administrative expenses	3,084	1,435	—	41	1	13,665	18,226
Other operating expenses	—	—	—	—	—	(438)	(438)
Impairment of mineral properties, plant and equipment (Note 27)	49,709	27,341	48,118	—	—	10,379	135,547
Loss from operations	\$ (49,131)	\$ (6,928)	\$ (50,333)	\$ (41)	\$ (1)	\$ (26,977)	\$ (133,411)
Capital expenditures	\$ 8,544	\$ 19,661	\$ 9,874	\$ 1,022	\$ 364,701	\$ (138)	\$ 403,664
December 31, 2022							
Mineral properties, plant and equipment	\$ 6,642	\$ 29,271	\$ 54,043	\$ 21,069	\$ 901,328	\$ 5,975	\$1,018,328
Total assets	\$ 102,143	\$ 63,154	\$ 113,171	\$ 22,086	\$ 938,006	\$ 20,835	\$1,259,395
	El Castillo mining complex	La Colorada	Florida Canyon	Cerro del Gallo	Magino	Corporate and other	Total
Year ended December 31, 2021							
Revenue	\$ 222,422	\$ 116,151	\$ 98,338	\$ —	\$ —	\$ —	\$ 436,911
Production costs	129,471	49,836	74,443	—	—	—	253,750
Depreciation, depletion and amortization	39,375	19,946	12,173	—	—	—	71,494
Reversal of inventory impairment (Note 7)	(2,693)	—	—	—	—	—	(2,693)
Total cost of sales	166,153	69,782	86,616	—	—	—	322,551
Gross profit	56,269	46,369	11,722	—	—	—	114,360
Exploration expenses	—	—	—	—	—	4,315	4,315
General and administrative expenses	2,742	1,218	—	102	3	14,065	18,130
Other operating expenses	—	166	—	—	—	247	413
Impairment of mineral properties, plant and equipment (Note 27)	—	—	57,481	—	—	7,396	64,877
Profit (loss) from operations	\$ 53,527	\$ 44,985	\$ (45,759)	\$ (102)	\$ (3)	\$ (26,023)	\$ 26,625
Capital expenditures	\$ 21,906	\$ 5,847	\$ 28,987	\$ 1,580	\$ 316,462	\$ 2,517	\$ 377,299
December 31, 2021							
Mineral properties, plant and equipment	\$ 84,831	\$ 43,907	\$ 106,277	\$ 20,054	\$ 611,910	\$ 35,260	\$ 902,239
Total assets	\$ 181,741	\$ 98,350	\$ 167,882	\$ 21,964	\$ 626,251	\$ 173,139	\$1,269,327

**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2022 and 2021****(Expressed in thousands of United States dollars, except where noted)****23 RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION**

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

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

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

- b) Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company and consist of directors and certain senior officers. The compensation of the Company's directors and other key management personnel is detailed in the following table:

	2022	2021
Salaries and other short-term employee benefits <sup>(1)</sup>	\$ 2,902	\$ 5,460
Post-employment benefits	105	96
Share-based compensation <sup>(1)</sup>	3,307	1,619
	\$ 6,314	\$ 7,175

<sup>(1)</sup> For the year ended December 31, 2021, the balance includes the impact of the departure of the Chief Executive Officer.

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**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2022 and 2021****(Expressed in thousands of United States dollars, except where noted)**

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**24 CAPITAL MANAGEMENT**

The Company manages and adjusts its capital structure based on available funds in order to support its operations and the acquisition, exploration and development of mineral properties. The capital of the Company consists of share capital, contributed surplus and debt (including the undrawn amount of \$170,000 as at December 31, 2022 on the Loan Facilities), net of cash and cash equivalents. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

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

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

**25 COMMITMENTS AND CONTINGENCIES**

At December 31, 2022, the Company has the following commitments:

	2023	2024	2025	2026	2027	Thereafter	Total
Accounts payable and accrued liabilities	\$ 94,291	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 94,291
Lease obligations	20,534	19,644	11,770	4,347	32	211	56,538
Land agreement obligations <sup>(1)(3)</sup>	1,378	1,420	1,465	926	790	5,978	11,957
Purchase obligations <sup>(2)(3)</sup>	198,131	14,993	14,250	9,417	296	—	237,087
Debt <sup>(4)</sup>	5,182	14,367	16,384	80,282	19,072	4,000	139,287
Reclamation provision <sup>(5)</sup>	29,079	9,238	4,151	4,175	7,758	75,701	130,102
	\$ 348,595	\$ 59,662	\$ 48,020	\$ 99,147	\$ 27,948	\$ 85,890	\$ 669,262

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

<sup>(2)</sup> The Company has commitments totaling \$133,401 for the Magino project, \$33,861 for mining services, \$65,626 for supplies, \$3,587 for flow-through expenditures and \$613 for other services.

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

<sup>(4)</sup> Debt represents the Loan Facilities and Convertible Debentures (note 11).

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

*Flow-through common shares*

The Company is required to incur expenses and renounce all qualified CDE and CEE in relation to its CDE Flow-Through Shares and CEE Flow-Through Shares in favor of the subscribers. Typically, the Company renounces all expenditures to flow-through shareholders at the end of the year in which the shares are issued. For the November 2022 CDE Flow-Through Shares, the Company has until May 31, 2023 to renounce all expenditures to the CDE Flow-Through Shares shareholders.

As at December 31, 2022, the remaining qualifying CDE to be incurred by December 31, 2023 is \$2,900 (note 16b) and the remaining qualifying CEE to be incurred by December 31, 2023 is \$687 (note 16b).

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**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2022 and 2021****(Expressed in thousands of United States dollars, except where noted)**

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*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*

In March 2022, the Company entered into monthly unsecured forward gold sales contracts (also referred to as the "Gold Forwards") of 7,500 gold ounces per month between April 2022 and March 2023, at a fixed gold price of \$1,916 per gold ounce. At inception, these Gold Forwards totaled 90,000 gold ounces to be settled on a monthly basis over the next 12-months and were expected to be settled through the Company's production. As at December 31, 2022, the Company had settled all of these Gold Forwards through the Company's production early, as allowed under the terms of the contracts, and recognized \$171,475 of revenue for the 90,000 gold ounces delivered during the year.

In December 2022, the Company entered into additional monthly unsecured forward gold sales contracts of 10,000 gold ounces per month for a total 30,000 gold ounces to be settled during the first quarter of 2023, at a fixed gold price of \$1,827, per gold ounce.

Subsequent to December 31, 2022, the Company entered into further monthly unsecured forward gold sales contracts (note 28).

*Financing gold forward sales contracts*

In June 2022, in relation to the commitment by the lenders to provide the Loan Facilities (note 11), the Company entered into a number of unsecured forward gold sales contracts (referred to as the "Financing Gold Forwards"). At inception, these Financing Gold Forwards totaled 300,000 gold 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 gold ounces to be settled on an average monthly basis of 8,333 gold ounces between July 2023 and December 2024, at an average fixed gold price of \$1,860 per gold ounce. The remaining Financing Gold Forwards comprise a further 150,000 gold 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.

In October 2022, the Company entered into additional Financing Gold Forwards totaling 100,000 gold ounces to be settled on a quarterly basis at 10,000 gold ounces per quarter for the ten quarters starting with the first quarter of 2025, at an average fixed gold price of \$1,763 per gold ounce.

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

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

**a) Credit risk**

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

**b) Market price risk**

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

If equity prices for these marketable securities had increased or decreased by 5.0% as at December 31, 2022, with all other variables held constant, the Company's marketable securities would have increased or decreased, respectively, by approximately \$4 (2021 - \$302). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

**c) Loan Facilities risk**

The Company's Loan Facilities contains financial, operational and reporting covenants, and compliance with any such covenants may increase the Company's administrative, legal and financial costs, make some activities more difficult, time-consuming or costly, increase demand on the Company's systems and resources, and result in a failure to satisfy applicable drawdown conditions.

The failure of the Company to comply with restrictions and covenants under its indebtedness, which may be affected by events beyond the Company's control, could result in a default under such indebtedness, which could result in acceleration of repayment of amounts due thereunder, the Company being required to repay amounts owing earlier than anticipated, and/or the Company being unable to satisfy applicable drawdown conditions. If repayment of the Company's indebtedness is accelerated, or future draw-downs are unable to be made, the Company may not be able to repay its indebtedness or borrow sufficient funds to refinance it, and any such repayment or refinancing could adversely affect the Company's financial condition. Even if the Company is able to obtain new financing, it may not be on commercially reasonable terms or terms that are acceptable to the Company.

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**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2022 and 2021****(Expressed in thousands of United States dollars, except where noted)**

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It is not unusual in new mining operations to experience unexpected problems and delays during the construction and development of a mine. In addition, delays in the commencement or expansion of mineral production often occur and, once commenced or expanded, the production of a mine may not meet expectations or estimates set forth in feasibility or other studies. Any of the foregoing factors could adversely impact the Company's ability to repay amounts owing. If the Company is unable to repay amounts owing, the lenders under its indebtedness could proceed to realize upon the security, as applicable, granted to them to secure the indebtedness. The Loan Facilities are secured by substantially all of the Company's assets, a realization by the lenders thereunder of any or all of the security would have a material adverse effect on the Company's business, financial condition, results of operations, cash flows and prospects and may result in a substantial reduction or elimination entirely of assets available for distribution to equity holders on a dissolution or wind-up of the Company. The acceleration of repayment of the Company's indebtedness under one agreement may permit acceleration of repayment of indebtedness under other agreements that contain cross default or cross-acceleration provisions. Even if the Company is able to comply with all applicable covenants, restrictions on its ability to manage its business in its sole discretion could adversely affect its business by, among other things, limiting its ability to take advantage of financings, mergers, acquisitions and other corporate opportunities that the Company believes may be beneficial to it.

d) Foreign exchange risk

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

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

	US dollar value of Canadian dollar balances		US dollar value of Mexican peso balances	
	2022	2021	2022	2021
Cash and cash equivalents	\$ 22,002	\$ 37,142	\$ 2,682	\$ 1,543
Marketable securities	80	6,049	—	—
Other receivables	66	1	38	279
Accounts payable and accrued liabilities	(47,320)	(39,587)	(17,425)	(23,017)
Other liabilities	—	—	(3,076)	(1,052)
	\$ (25,172)	\$ 3,605	\$ (17,781)	\$ (22,247)

Based on the above net exposures as at December 31, 2022, a 10.0% appreciation in the Canadian dollar would result in a \$2,517 decrease in the Company's other comprehensive loss for the year ended December 31, 2022 (December 31, 2021 - \$360 increase in other comprehensive income). A 10.0% appreciation in the Mexican peso would result in a \$1,778 increase in the Company's loss before income taxes for 2022 (2021 - \$2,225 decrease in the Company's income before income taxes).



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**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2022 and 2021****(Expressed in thousands of United States dollars, except where noted)**

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*Currency derivative contracts - foreign exchange forwards*

In October 2022, the Company entered into foreign exchange contracts (the “FX Forwards”) to protect the Company’s exposure to foreign exchange fluctuations between Canadian and US dollars. The contracts were priced at an average rate of \$1.34 Canadian dollars per US dollar for the next 24 months. This agreement was a condition precedent of the Loan Facilities (note 11).

The details of the Company’s FX Forwards are as follows:

Anticipated settlement date	US\$	Settlement rate	CAS	Status
November 2022 - December 2022	\$ 38,000	\$1.3446	\$ 51,095	Settled
January 2023	56,000	\$1.3501	75,741	Settled
February 2023 - December 2023	129,000	\$1.3352	172,271	Open
January 2024 - December 2024	118,800	\$1.3240	157,280	Open
	\$ 341,800		\$ 456,387	

The fair value of the FX Forwards at December 31, 2022 resulted in a net liability of \$4,559. The fair values of the FX Forwards have been recognized, on a net basis, in derivative liabilities on the consolidated statements of financial position. These derivative instruments were not designated as hedges by the Company and will be fair valued at the end of each reporting period with the fair value adjustment recorded in the consolidated statements of (loss) income. The FX Forwards were valued as the difference between the committed exchange price and the spot exchange rate at the end of the reporting period, and were classified as Level 1 in the fair value hierarchy. During 2022, realized and unrealized foreign exchange losses of \$595 and \$4,559, respectively, were recognized in the consolidated statements of (loss) income related to the FX Forwards.

e) Liquidity risk

The Company manages liquidity risk by maintaining adequate cash and cash equivalent balances and credit facilities. The Company continuously monitors and reviews both actual and forecasted cash flows, and matches the maturity profile of financial assets and liabilities. As at December 31, 2022, the Company had a cash balance of \$73,254 (December 31, 2021 - \$199,235), an undrawn balance of the Loan Facilities of \$170,000 (December 31, 2021 - \$nil), other current assets of \$158,678 (December 31, 2021 - \$147,099) and current liabilities of \$144,387 (December 31, 2021 \$169,820).

f) Interest rate risk

Interest rate risk is the risk that the fair values and future cash flows of the financial instruments will fluctuate because of changes in market interest rates. The Company has interest bearing cash balances, which are subject to fluctuations in the interest rate. A 10.0% increase or decrease in the interest earned from financial institutions on deposits held would result in a nominal increase or decrease in the Company’s income (loss) before income taxes in the consolidated statements of (loss) income. The Company has additional exposure to interest rate risk on the Loan Facilities, which are subject to a floating interest rate. Floating interest rates are based on the Adjusted Term SOFR plus a fixed margin. Based on the spread between the high and the low of the Adjusted Term SOFR rate during 2022, in which there was a 50.0% fluctuation, a relatively similar rate change would result in a nominal increase or decrease in interest expense in the consolidated statements of (loss) income. The Company does not enter into derivative contracts to manage this risk. The Company has utilized \$80,000 of the Loan Facilities as at December 31, 2022.

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**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2022 and 2021****(Expressed in thousands of United States dollars, except where noted)**

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g) **Commodity price risk**

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

*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. Payments for the settlement of the derivatives were finalized in July 2022.

The details of the Company’s commodity contracts are as follows:

Commodity contracts at inception	Status	Quantity <sup>(2)</sup> (oz)	Term	Strike price per oz <sup>(1)(2)</sup>
Gold put options - purchased	Expired	51,600	January 2021 - December 2021	\$ 1,450.00
Gold call options - sold	Expired	38,700	January 2021 - December 2021	\$ 1,709.00
Gold call options - sold	Expired	12,900	January 2021 - December 2021	\$ 1,785.00
Gold put options - purchased	Expired	18,000	January 2022 - June 2022	\$ 1,450.00
Gold call options - sold	Expired	13,500	January 2022 - June 2022	\$ 1,745.00
Gold call options - sold	Expired	4,500	January 2022 - June 2022	\$ 1,816.00

<sup>(1)</sup> 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.

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

Prior to expiration, the fair values of the Gold Collars had been recognized, on a net basis, as derivative liabilities on the 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 consolidated statements of (loss) 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 2022, a reversal of prior period unrealized loss of \$1,257, (2021 -\$16,380) was recognized in the consolidated statements of (loss) income on the fair value of the Gold Collars. During 2022, a realized loss on the Gold Collars of \$1,981 (2021 - \$3,808) was recognized in the consolidated statements of (loss) income.

*Financial instruments*

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

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**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2022 and 2021****(Expressed in thousands of United States dollars, except where noted)**

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

	December 31, 2022	December 31, 2021
Financial assets at amortized cost <sup>(1)</sup>	\$ 75,171	\$ 201,260
Financial liabilities at amortized cost <sup>(2)</sup>	(277,509)	(287,924)
Financial assets at fair value through profit or loss <sup>(3)</sup>	2,872	9,292
Financial liabilities at fair value through profit or loss <sup>(4)</sup>	(5,554)	(12,719)

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

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

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

<sup>(4)</sup> 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 is determined based on the quoted market price with subsequent changes to fair values recognized in the consolidated statements of (loss) income. During 2022, the Company disposed of its marketable securities (note 20).

As at December 31, 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 December 31, 2022 and December 31, 2021, the carrying amounts of other liabilities and debt, excluding the Convertible 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 December 31, 2022, the fair value of the Convertible Debentures was \$46,559 (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).

**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2022 and 2021****(Expressed in thousands of United States dollars, except where noted)****27 IMPAIRMENT**

During 2022, the Company recognized an impairment of mineral properties, plant and equipment of \$135,547 (2021 - \$64,877), as summarized in the following tables:

	2022				
	Exploration and evaluation assets	Mineral properties	Plant and equipment	Total	
El Castillo mine	\$ —	\$ 6,379	\$ 283	\$ 6,662	
Florida Canyon mine	—	17,798	30,320	48,118	
La Colorada mine	—	23,462	3,879	27,341	
San Agustin mine	—	32,418	10,629	43,047	
Ana Paula project	10,379	—	—	10,379	
Total impairment	\$ 10,379	\$ 80,057	\$ 45,111	\$ 135,547	

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

*2022 Impairment*

During the year ended December 31, 2022, management of the Company completed an assessment of impairment indicators for each of the Company's CGUs, as noted below, as well as took into consideration that the Company's market capitalization continued to be below the carrying value of net assets. As a result of this assessment, management identified impairment indicators for the La Colorada mine, the Florida Canyon mine, the San Agustin mine, the El Castillo mine, the Magino project and the Ana Paula project CGUs. Accordingly, the Company estimated the recoverable amounts of these CGUs and compared them to the carrying values of the CGUs. The recoverable amount was determined as the FVLCD for each CGU. The FVLCD was determined using a discounted future cash-flow model for each CGU. For the Ana Paula project, management used initial consideration and management's best estimate of the likelihood of the additional consideration that is contingent upon several triggers including permitting, feasibility and a construction decision, in addition to macroeconomic, country and asset specific risk factors. For the Magino project, management used a discounted future cash-flow model and an in-situ value of its mineral reserves and resources for the determination of the FVLCD. The determination of FVLCD requires use of Level 2 and Level 3 valuation inputs.

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

- For the El Castillo mine's CGU, the early end of mining operations was identified as an impairment indicator. As a result of the Company's impairment assessment, mineral properties, and plant and equipment were written down by \$6,662 to its recoverable value of \$nil, which was determined based on the FVLCD, and was recognized in the consolidated statements of (loss) income. The FVLCD was determined using a discounted cash flow model.
- For the Florida Canyon mine's CGU, an increase in expected operating costs and reduction in metallurgical recovery estimates were identified as impairment indicators. As a result of the Company's impairment assessment, mineral properties, and plant and equipment were written down by \$48,118 (2021 - \$57,481) to its recoverable value of \$54,043, which was determined based on the FVLCD, and was recognized in the consolidated statements of (loss) income. The FVLCD was determined using a discounted cash flow model and the in-situ fair value per ounce of gold equivalent mineral reserves and resources that were not already considered in the discounted cash flow model based on sale transactions of comparable assets.
- For the San Agustin mine's CGU, the inability to obtain required permits, an increase in expected operating costs and an updated mine plan resulting in an increased strip ratio were identified as impairment indicators. As a result of the Company's impairment assessment, mineral properties and plant and equipment were written down by \$43,047 to its recoverable value of \$6,642, which was determined based on the FVLCD, and was recognized in the consolidated statements of (loss) income. The FVLCD was determined using a discounted cash flow model.
- For the La Colorada mine's CGU, the inability to obtain required permits and an increase in expected operating costs were identified as impairment indicators. As a result of the Company's impairment assessment, mineral properties and plant and equipment were written down by \$27,341 to its recoverable value of \$29,271, which was determined based on the FVLCD, and was recognized in the consolidated statements of (loss) income. The FVLCD was determined using a discounted cash flow model.
- For the Magino project's CGU, an increase in budgeted capital costs and an increase in the estimated operating costs were identified as impairment indicators. After a review of the impacts of cost increases, inflation, adjustments to the development plans and contingencies, and the updated capital costs to completion, it was determined there was no impairment to the Magino project as at December 31, 2022. The FVLCD was determined using a discounted cash flow model and the in-situ fair value per ounce of gold equivalent mineral reserves and resources that were not already considered in the discounted cash flow model based on sale transactions of comparable assets.
- Upon reclassification of the Ana Paula project to a disposal group in the fourth quarter of 2022, the Company assessed the Ana Paula project for impairment as at December 31, 2022 (note 5). The Company used initial consideration and management's best estimate of the likelihood of the additional consideration that is contingent upon several triggers including permitting, feasibility and a construction decision, in addition to macroeconomic, country and counterparty specific risk factors. The Company performed a probability assessment of each contractual provision based upon likelihood of the action. Some of the provisions are time-based while others are achievement oriented. This probability analysis was the basis for the valuation of the FVLCD of Ana Paula. The Company assessed the recoverable amount for the non-current assets including the exploration and evaluation assets of the Ana Paula project, and determined a recoverable value based on the FVLCD of the Ana Paula project of \$13,300, which was lower than the carrying value of the CGU. Accordingly, an impairment of \$10,379 (2021 - \$7,330) was recognized in the consolidated statements of (loss) income.

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**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2022 and 2021****(Expressed in thousands of United States dollars, except where noted)**

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*Impairment testing: 2022 Key assumptions*

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

The determination of FVLCD includes the following key assumptions:

- Long term and short term gold price per ounce: \$1,650 and \$1,730, respectively;
- Exchange rates: \$1.35 Canadian dollars per US dollar, and \$20.00 Mexican pesos per US dollar;
- Expected future operating and capital costs based on budgeted and LOM costs;
- Future production volume and metallurgical recovery estimates as indicated in the LOM plans;
- In-situ value per ounce of gold equivalent mineral reserves and resources for the Magino project of \$76 per ounce, and for the Florida Canyon mine of \$38 per ounce; and
- Real after-tax discount rate: 5.0% for the El Castillo, San Agustin, and Florida Canyon CGUs, 6.0% for the Magino project CGU, and 7% for the La Colorada CGU.

*Sensitivity analysis 2022*

The Company has performed sensitivity analyses on the CGUs where an impairment was recorded. The Company assumed a 5.0% change in the short term gold price assumption, a 5.0% change in the operating cost assumption, and change in the discount rate from 5.0% to 6.0% for the El Castillo mine, San Agustin mine, and Florida Canyon mine; and from 7.0% to 8.0% for the La Colorada mine, while holding all other assumptions constant. Based on the impairment testing performed as at December 31, 2022, the sensitivity to changes in these key assumptions appear below for the Company's mines:

	Change in recoverable amount from a 5% change in short term gold price	Change in recoverable amount from a 5% change in operating costs	Change in recoverable amount from a 1% change in the discount rate
El Castillo mine	\$ —	\$ —	\$ 92
San Agustin mine	\$ 1,833	\$ 2,992	\$ 3
La Colorada mine	\$ 14,779	\$ 5,866	\$ 1,510
Florida Canyon mine	\$ 5,127	\$ 5,818	\$ 1,275

**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2022 and 2021****(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 in-situ value per ounce, and the percentage change in operating costs 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 <sup>1</sup>	Percentage change in operating costs required for recoverable amount to equal carrying amount	In-situ value per ounce required for recoverable amount to equal carrying amount
Magino project	\$ 1,501	8.62%	\$ 866,764	13.75%	\$ 22.50

<sup>(1)</sup> The construction capital required for recoverable amount to equal carrying amount is \$866,764 or CA\$1,174,000 at an exchange rate of \$0.74 per CA\$1.00.

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

*2021 Impairment*

During the year ended December 31, 2021, management of the Company completed an assessment of impairment indicators for each of the Company's CGUs, as the Company's market capitalization continued to be below the carrying value of net assets. As a result of this assessment, management identified impairment indicators for the La Colorada mine, the Florida Canyon mine, the Magino project, and the Ana Paula project CGUs. No impairment indicators were identified for El Castillo and San Agustin. Accordingly, the Company estimated the recoverable amounts of these CGUs and compared them to the carrying values of the CGUs. The recoverable amount was determined as the FVLCD for each CGU. The FVLCD was determined using a discounted future cash-flow model. For the Ana Paula project, management used initial consideration and management's best estimate of the likelihood of the additional consideration that is contingent upon several triggers including permitting, feasibility and a construction decision, in addition to macroeconomic, country and asset specific risk factors. For the Magino project, management used a discounted future cash-flow model and an in-situ value of its mineral reserves and resources for the determination of the FVLCD. The determination of FVLCD requires use of Level 2 and Level 3 valuation inputs.

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

- For the Florida Canyon mine's CGU, an increase in expected operating costs and changes in metallurgical recovery estimates were identified as impairment indicators. As a result of the Company's impairment assessment, mineral properties related to the Florida Canyon mine's CGU were written down to its recoverable value of \$54,825, which was determined based on the FVLCD, and an impairment of mineral properties of \$57,481 was recognized in the consolidated statements of (loss) income. The FVLCD was determined using a discounted cash flow model.
- For the La Colorada mine's CGU, a reduction in metallurgical recovery estimates, changes in estimated timing of ounces to be produced, and an increase in stripping costs were identified as impairment indicators. After a review of the Company's impairment assessment, impacts of cost increases, consideration of mineral reserves and resources and the updated LOM, it was determined that no impairment was to be recognized for the La Colorada mine as at December 31, 2021. The FVLCD was determined using a discounted cash flow model.

- For the Magino project's CGU, an increase in budgeted capital costs and an increase in the estimated operating costs were identified as impairment indicators. After a review of the impacts of cost increases, inflation, COVID-19 impacts, adjustments to the development plans and contingencies, and the updated capital costs to completion, it was determined that no impairment was to be recognized for the Magino project as at December 31, 2021. The FVLCD was determined using a discounted cash flow model and the in-situ fair value per ounce of gold equivalent mineral reserves and resources that were not already considered in the discounted cash flow model based on sale transactions of comparable assets.
- The Ana Paula project was assessed for impairment upon the reclassification of the Ana Paula project as no longer an asset held for sale as at December 31, 2021. The Company assessed the recoverable amount for the non-current assets including the exploration and evaluation assets of the Ana Paula project, and determined a recoverable value based on the FVLCD of the Ana Paula project of \$28,945, which was lower than the carrying value of the CGU. Accordingly, an impairment of \$7,330 was recognized in the consolidated statements of (loss) income. The FVLCD was determined using relevant market data.

*Other 2021 impairment (reversal)*

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

- An impairment reversal related to cash received in connection with a mineral property option agreement with a third party. The payment received has resulted in a partial reversal of this impairment of \$606 (note 8).
- An impairment of \$672 resulting from the Company reevaluating the salvage values on aged and fully depreciated plant and equipment.

*Impairment testing: 2021 Key assumptions*

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

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



**ARGONAUT GOLD INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the years ended December 31, 2022 and 2021****(Expressed in thousands of United States dollars, except where noted)***Sensitivity analysis 2021*

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

	Change in recoverable amount from a 5% change in long term gold price	Change in recoverable amount from a 5% change in operating costs	Change in recoverable amount from a change in discount rate from 5% to 6%
Florida Canyon mine	\$ 35,313	\$ 31,506	\$ 6,320

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

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

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

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

**28 EVENTS AFTER THE REPORTING PERIOD**

In January 2023, the Company entered into monthly unsecured gold sales contracts for 10,000 gold ounces per month for a total 30,000 gold ounces to be settled during the second quarter of 2023, at a fixed gold price of \$1,896 per gold ounce.

In January 2023, the Company drew down an additional \$56,000 on the Term Loan.

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# ARGONAUT GOLD

Management's Discussion & Analysis of

**ARGONAUT GOLD INC.**

**For the year ended December 31, 2022**

## ARGONAUT GOLD INC.

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## **MANAGEMENT'S DISCUSSION & ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2022**

*This Management's Discussion and Analysis ("MD&A") of Argonaut Gold Inc. (the "Company" or "Argonaut") and its subsidiaries has been prepared as at February 26, 2023. All dollar amounts are expressed in United States ("US") dollars unless otherwise stated (CA\$ represents Canadian dollars). This MD&A should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2022. The financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Additional information relating to the Company, including its Annual Information Form, is available under the Company's website [www.argonautgold.com](http://www.argonautgold.com) and under the Company's profile on the SEDAR website at [www.sedar.com](http://www.sedar.com).*

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

### **DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS**

Argonaut is a Canadian gold company listed on the Toronto Stock Exchange ("TSX"), and engaged in exploration, mine development, and production. The Company is in the final stages of construction of the Magino mine, located in Ontario, Canada. Magino is expected to be the Company's largest and lowest cost gold mine. Commissioning is scheduled for the second quarter of 2023 followed by commercial production in the third quarter of 2023. The Company also has three operating mines including the Florida Canyon mine in Nevada, USA, the San Agustin mine in Durango, Mexico, and the La Colorada mine in Sonora, Mexico. In the fourth quarter of 2022 ("Q4 2022"), the El Castillo mine ceased mining operations and is now in residual leaching. In addition, the Company holds the advanced exploration stage Cerro del Gallo project and several other exploration stage projects, all of which are located in North America.

The registered office of the Company is located at One First Canadian Place, 100 King Street West, Suite 3400, 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.

#### **Management Changes**

In December 2022, Larry Radford, resigned as President and Chief Executive Officer for personal health reasons. Richard Young was appointed the new President and Chief Executive Officer on December 7, 2022, bringing more than 30 years of mining experience to the Company. During the first quarter of 2023, Lowe Billingsley, the Company's Chief Operating Officer, resigned to pursue other opportunities. Marc Leduc was appointed the new Chief Operating Officer and brings more than 40 years mining experience to the Company. In addition, David Savarie has been appointed Vice President, General Counsel & Corporate Secretary, and Nancy Lee has been appointed Vice President, Human Resources. Mr. Savarie brings over 20 years of professional experience to the Company, the last 15 of which have been exclusively within mining. Ms. Lee brings over 25 years of professional experience to the Company, the last 10 of which have been exclusively within mining. The Company believes these changes add necessary depth, experience and expertise as the Company looks to execute on its vision.

#### **Overview of the Business**

The Company's Mexican asset base has been the cornerstone of Argonaut Gold since its inception in 2009. Over the course of the past decade the Company has made two significant acquisitions, the first being Prodigy Gold Inc. in 2013, owner of the Magino project and the second being Alio Gold Inc. ("Alio") in 2020, owner of the Florida Canyon mine. Magino, the Company's flagship gold mine, is expected to be commissioned in the third quarter of 2023 and ramp up to commercial production the following quarter. Magino has the potential to be one of the 10 largest and lowest cost gold mines in Canada. Florida Canyon, located in Nevada is a low-grade heap leach operation and represents significant potential for growth in the Company's portfolio.

The year ended December 31, 2022 marks the final year in which the Company's Mexican operations are expected to provide the majority of production. One of the three Mexican operations completed mining at the end of 2022, and now is in the final leaching process and reclamation. The two remaining operating mines are currently expected to complete their final phases of mining by the end of 2023 and are expected to complete the majority of their leaching processes in 2024 and then be placed on care and maintenance while management works to secure land access and permits for those mines to complete mining of the remaining reserves and resources. Sale and written option agreements were entered into for two of the Company's remaining Mexican development assets in December 2022, leaving the Company with one development project, Cerro del Gallo in Mexico. The Company continues to work on resubmitting the permit applications for this project.

In 2022, the Company recorded impairments on mineral properties, plant and equipment totaling \$135.5 million. The impairments recorded at San Agustin and La Colorada were largely the result of ongoing land acquisition and permitting challenges which had a negative impact on the respective life of mines. The impairment recorded at Florida Canyon was largely the result of significant inflationary increases and reduction in the metallurgical recoveries which had a disproportionately high impact on costs for the low-grade heap leach operation.

The following table illustrates the significant cost increases of the Company's key consumables:

	2022			2021			2020	
	Gross Cost (\$ millions)	\$/oz	% change	Gross Cost (\$ millions)	\$/oz	% change	Gross Cost (\$ millions)	\$/oz
Diesel	47.9	243	40 %	40.8	174	– %	34.0	173
Cyanide	35.8	181	57 %	27.2	116	(10)%	25.2	128
Lime	19.6	99	48 %	15.8	67	(5)%	13.8	71
Explosives	14.4	73	70 %	10.1	43	(10)%	9.3	48

Input prices on key consumables (including diesel, cyanide, fuel, and explosives) increased by approximately 40-70% across the Company's operations, which have increased costs by nearly \$200 per ounce for 2022 compared to 2021. Workforce availability and securing timely delivery of equipment parts also remained challenging during 2022. These pressures continued to be partially offset by sustained operational performance, the pooling of resources within the regions in which the Company operates, and optimization. Although the Company has started to see a gradual easing of inflationary pressures and some relief in equipment parts availability, these pressures could still be challenging in 2023. The Company's focus will continue to be on increasing operational efficiencies and cost optimization at all mining operations.

In December 2022, the Company entered into a binding purchase agreement with Heliostar Metals Limited ("Heliostar") to sell the Ana Paula project.

In addition, in December 2022, the Company entered into a separate option agreement (the "Option Agreement") with Heliostar, whereby Heliostar has been granted the option to acquire a 100% interest in the Company's San Antonio gold exploration stage project, located in Baja California Sur, Mexico. During 2019, the Mexican Environmental Authority issued a ruling not to approve the Environmental Impact Assessment for the San Antonio project. As a result of this decision and the uncertainty over the timing of the Company's ability to advance the project, the Company recorded an impairment of \$111.0 million in the year ended December 31, 2019 to write-down the carrying amount of the project.

## FINANCIAL AND OPERATING HIGHLIGHTS

		Three months ended December 31,		Change	Year ended December 31,		Change
		2022	2021		2022	2021	
Revenue	\$ millions	95.9	102.9	(7)%	388.3	436.9	(11)%
Cost of sales	\$ millions	80.3	68.3	18 %	278.3	253.8	10 %
Net (loss) income	\$ millions	(174.9)	(37.3)	(369)%	(152.2)	26.5	(674)%
(Loss) earnings per share - basic	\$/share	(0.22)	(0.12)	(80)%	(0.28)	0.09	(406)%
(Loss) earnings per share - diluted	\$/share	(0.22)	(0.12)	(80)%	(0.28)	0.08	(444)%
Adjusted net (loss) income <sup>1</sup>	\$/share	(37.7)	10.2	(470)%	(22.4)	57.1	(139)%
Adjusted (loss) earnings per share - basic <sup>1</sup>	\$/share	(0.05)	0.03	(242)%	(0.04)	0.19	(121)%
Cash flow from operating activities before changes in non-cash operating working capital	\$ millions	8.6	18.3	(53)%	70.6	124.9	(43)%
Gold equivalent ounces ("GEOs") produced <sup>2</sup>	oz	42,510	61,926	(31)%	203,155	244,156	(17)%
Gold ounces sold	oz	50,606	55,094	(8)%	200,695	233,349	(14)%
Cost of sales <sup>1</sup> per gold ounce sold	\$/oz	2,381	1,544	54 %	1,816	1,382	31 %
Cash cost <sup>1</sup> per gold ounce sold	\$/oz	2,005	1,172	71 %	1,443	1,006	43 %
All-in sustaining costs <sup>1</sup> ("AISC") per gold ounce sold	\$/oz	2,266	1,514	50 %	1,765	1,311	35 %
Cash and cash equivalents	\$ millions	73.3	199.2	(63)%	73.3	199.2	(63)%
Net (debt) cash <sup>1</sup>	\$ millions	(4.3)	119.2	(104)%	(4.3)	119.2	(104)%
Impairment of mineral properties, plant and equipment	\$ millions	135.5	64.9	109 %	135.5	64.9	109 %
Inventory impairment (reversal)	\$ millions	23.0	(0.5)	(4359)%	22.9	(2.7)	(950)%

<sup>1</sup>This is a Non-IFRS Measure; please see "Non-IFRS Measures" section.

<sup>2</sup>Based on a silver to gold ratio of 80:1 in 2022, and 85:1 in 2021.

## 2022 COMPANY HIGHLIGHTS

- Reported consolidated production of 203,155 GEOs, in line with guidance. Cash cost<sup>1</sup> of \$1,443 and AISC<sup>1</sup> of \$1,765 per gold ounce sold came in above the amended guidance, as reported in the Company's November 3, 2022 earnings news release.
- Completed a financing package of equity, debt and a royalty sale to facilitate the completion of construction of the Magino project.
- Advanced construction of Magino, working towards anticipated first gold pour in mid-May and commercial production during the third quarter of 2023 (see Magino Project below).

<sup>1</sup>This is a Non-IFRS Measure. Please see "Non-IFRS Measures" section.

- Management took steps to monetize two of the Company's non-core assets. The Company entered into two agreements with Heliostar dated December 5, 2022: (i) a binding purchase agreement for the sale of Argonaut's interest in the Ana Paula project; and (ii) an option agreement pursuant to which Heliostar has been granted an option to acquire a 100% interest in the San Antonio project. Both projects are located in Mexico.
- In December, Richard Young was appointed as President and CEO to lead the Company through its next stage of growth.

## **Magino Project**

- By the end of 2022, the Magino Project was estimated to be 80% complete with \$583 million (CA\$750 million) spent of \$755 million (CA\$980 million) estimated cost to completion.
- Mining rates are rising in advance of commissioning to create a higher-grade ore stockpile.
- Manpower buildup taking place.
- Plant commissioning team expected to arrive at site to begin commissioning process in March.
- Ramp up to commercial production is expected to take three months following first pour in mid-May 2023.
- Exploration continues at Magino and in September reported high-grade intercepts drill results from deep drilling at Magino.
- The ongoing drill program continues to intersect multiple zones of mineralization at depth along a strike length of 1,500 metres, reinforcing the underground expansion potential below the planned Magino open pit.
- During the fourth quarter, the Company completed an additional 3,955 metres of drilling, including 12 drill holes on high-grade underground targets and 6 drill holes on regional targets.

## **Florida Canyon**

### *Operating Highlights*

- Production of 49,820 GEOs at a cash cost<sup>1</sup> per gold ounce sold of \$1,751.

### *Social & Environmental Responsibility*

- At Florida Canyon, the mine sponsored several different fall youth sports programs.
- Hosted a Florida Canyon mine tour for students of the Winnemucca's Albert Lowry High School.
- Partnered with Winnemucca County to ensure maintenance of the county access road to Florida Canyon during inclement weather.

## **El Castillo**

### *Operating Highlights*

- Production of 41,549 gold ounces at a cash cost<sup>1</sup> per gold ounce sold of \$1,851.
- Mining activities were suspended in late December 2022, one quarter earlier than planned as mining activities reached lower recovery rate material, which made the operation no longer economical.

### *Social & Environmental Responsibility*

- Hosted conferences at El Castillo for International Women's Day.
- At El Castillo, authorization was received from communal landholders for the mine closure plan.

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<sup>1</sup>This is a Non-IFRS Measure. Please see "Non-IFRS Measures" section.



## **San Agustin**

### *Operating Highlights*

- Production of 69,714 GEOs at a cash cost<sup>1</sup> per gold ounce sold of \$1,164.

### *Social & Environmental Responsibility*

- At San Agustin, the CFE power line was commissioned in October, reducing future diesel consumption by approximately 300,000 litres per month.

## **La Colorada**

### *Operating Highlights*

- Production of 41,630 GEOs at a cash cost<sup>1</sup> per gold ounce sold of \$1,103.

### *Social & Environmental Responsibility*

- Hosted conference at La Colorada for International Women's Day.
- Delivered educational scholarships to students in the municipality of La Colorada.
- Donated a new chlorinator for a main pipeline in La Colorada to provide improved water quality for the community.
- La Colorada mine has been included into a pilot plan to be implemented by the United Nations ("UN") Economic Commission for Europe's Center of Excellence of the Extractive and Energies Sectors to align our sector to the UN standards and methodologies in coordination with the Federal Ministry of Economy.
- At La Colorada, the Company sponsored the Summer Argonaut 2022 event, which provided young people in the community courses in dancing, singing, and environmental awareness.
- The event closing was attended by a representative from the Sonora Secretary of Education and Culture and the Secretary of the City Council of La Colorada.

## **Financing**

- Closed an offering of Canadian development expenditures ("CDE") and Canadian exploration expenditures ("CEE") flow-through common shares of the Company of CA\$51.8 million, including full exercise of over-allotment option, in March.
- Completed a CA\$195.3 million equity offering in July to fund the Magino construction project.
- In October, the Company closed a \$250 million financing package (collectively referred to as the "Loan Facilities") with a syndicate of lenders for funding the Magino construction project. Additionally, it raised combined proceeds of \$62.5 million from Franco-Nevada Corporation ("Franco-Nevada") for (i) the sale of a 2% net smelter return royalty on Magino; and (ii) a \$10 million equity private placement.
- Closed CDE flow-through shares of CA\$17.3 million, including full exercise of over-allotment option, in November.

## **Gold and Foreign Exchange Forward Contracts**

- In March, entered into gold price protection through gold forward sales contracts (referred to as "Gold Forwards"), for a total of 90,000 gold ounces, at \$1,916/oz. The Company settled all of these gold forward sales contracts as of December 2022.
- In December 2022, the Company entered into Gold Forwards of 10,000 gold ounces per month for a total 30,000 gold ounces to be settled during the first quarter of 2023, at a fixed price of \$1,827 per gold ounce.

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<sup>1</sup>This is a Non-IFRS Measure; please see "Non-IFRS Measures" section.

- In order to provide gold price protection during the period of the Loan Facilities, the Company entered into additional gold forward sales contracts at a price of \$1,860/oz during the life of the Loan Facilities under the following revised terms:
  - 150,000 gold ounces to be settled through 8,333 gold ounces per month for 18 months, starting July 1, 2023 through to December 31, 2024;
  - 150,000 gold ounces to be settled through 5,000 gold ounces per month for 30 months, starting January 1, 2025 through to June 30, 2027; and
  - 100,000 gold ounces to be settled on a quarterly basis at 10,000 gold ounces per quarter for the 10 quarters starting with the first quarter of 2025, at an average fixed gold price of \$1,763 per gold ounce.
- As of December 31, 2022, 430,000 ounces remain outstanding on various gold forward sales contracts, with anticipated settlement dates up to 2027.
- The Company has entered into monthly foreign exchange forward contracts for the Canadian dollar, up to September 2024, with the average rate of 1.34 Canadian dollars per US dollar, which cover the majority of the Company's Canadian dollar cost exposure through that period.

## SELECTED ANNUAL INFORMATION

The following table sets forth selected annual financial information and operating highlights for the years noted:

		2022	2021	2020
Revenue	\$000s	388,341	436,911	319,692
Inventory (impairment) reversal	\$000s	(22,879)	2,693	1,611
Mineral properties, plant and equipment (impairment) reversal	\$000s	(135,547)	(64,877)	6,251
Net (loss) income	\$000s	(152,202)	26,529	14,211
(Loss) earnings per share - basic	\$/share	(0.28)	0.09	0.06
(Loss) earnings per share - diluted	\$/share	(0.28)	0.08	0.06
Total assets	\$000s	1,259,395	1,269,327	1,053,410
Long-term liabilities	\$000s	241,190	267,877	186,823
Gold ounces sold	oz	200,695	233,349	172,024
GEOs produced <sup>2</sup>	oz	203,155	244,156	179,003
Average realized gold price per ounce	\$/oz	1,877	1,791	1,789
Cost of sales <sup>1</sup> per gold ounce sold	\$/oz	1,816	1,382	1,300
Cash cost <sup>1</sup> per gold ounce sold	\$/oz	1,443	1,006	946
AISC <sup>1</sup> per gold ounce sold	\$/oz	1,765	1,311	1,244

<sup>1</sup>This is a Non-IFRS Measure; please see “Non-IFRS Measures” section.

<sup>2</sup>Based on a silver to gold ratio of 80:1 in 2022, 85:1 in 2021, and 80:1 in 2020.

The Company’s results are predominantly influenced by the number of gold ounces sold, the average realized price per ounce of gold sold, the cash cost<sup>1</sup> per gold ounce sold, and any unusual matters including impairment write-downs or reversals of mineral properties, plant and equipment and inventories.

## 2023 OUTLOOK

		2022 Guidance (Amended) <sup>3</sup>	2022 Actual	2023 Guidance
GEO production <sup>1</sup>	oz	200,000 - 230,000	203,155	200,000 - 230,000
Cost of sales <sup>2</sup> per gold ounce sold	\$/oz	–	1,816	1,500 - 1,600
Cash cost <sup>2</sup> per gold ounce sold	\$/oz	1,300 - 1,350	1,443	1,200 - 1,300
AISC <sup>2</sup> per gold ounce sold	\$/oz	1,650 - 1,725	1,765	1,625 - 1,725
Capital (including exploration and excluding Magino construction capital)	\$ millions	60 - 65	63	50 - 55
Magino construction capital	\$ millions	400 - 423	335	173

<sup>1</sup>Based on a silver to gold ratio of 80:1 in 2023, 80:1 in 2022, and 85:1 in 2021.

<sup>2</sup>This is a Non-IFRS Measure; please see "Non-IFRS Measures" section.

<sup>3</sup>2022 amended guidance was initially presented in the Company’s November 3, 2022 earnings news release.

GEO production of 203,155 ounces was in line with guidance of 200,000 - 230,000 ounces due to strong Q4 performance by Florida Canyon and San Agustin mines. Cash cost<sup>1</sup> of \$1,443 per ounce was higher than the revised guidance of \$1,300 - \$1,350 and AISC<sup>1</sup> per ounce of \$1,765 was above the guidance range of \$1,650 - \$1,725. The increase in both costs was due to the impact of writing down inventories to net realizable value at El Castillo, Florida Canyon, San Agustin, and La Colorada, which added \$114 per gold ounce sold. Capital expenditures of

<sup>1</sup>This is a Non-IFRS Measure; please see “Non-IFRS Measures” section.

\$335 million at Magino was below guidance of \$400 - \$423 million due to a trade strike and fatality (refer to “Magino Project” section for more details). Capital expenditures of \$63.5 million for the other operating sites was within guidance of \$60 - \$65 million.

The Company projects the Magino project’s estimated cost to completion (“EAC”) will be \$755 million (CA\$980 million), an increase from the \$730 million (CA\$920 million) announced during the second quarter of 2022. The increase in costs were largely attributed to: (i) an anticipated 45-day delay in first gold pour from a trade strike and site fatality, which results in higher capitalized overheads; (ii) higher earthworks costs related to higher fuel prices and scope changes; (iii) higher power costs; and (iv) changes to reduce risks in the mine plan, partially offset by the weakening of the Canadian dollar against the US dollar.

Excluding the Magino project, the Company’s 2023 capital expenditures guidance for the other sites are as follows: \$18.0 - \$19.0 million at Florida Canyon, \$3.0 - \$4.0 million at San Agustin, and \$1.0 - \$1.5 million at La Colorada.

## SUMMARY OF QUARTERLY RESULTS

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

		2022 Q4	2022 Q3	2022 Q2	2022 Q1	2021 Q4	2021 Q3	2021 Q2	2021 Q1
Revenue	\$000s	95,877	75,257	111,405	105,802	102,870	108,580	120,194	105,267
Inventory (impairment) reversal	\$000s	(22,996)	(77)	13	181	540	233	(236)	2,156
Impairment of mineral properties, plant and equipment	\$000s	(135,547)	–	–	–	(64,877)	–	–	–
Net (loss) income	\$000s	(174,937)	(1,295)	18,412	5,618	(37,252)	14,996	21,778	27,007
(Loss) earnings per share - basic	\$/share	(0.22)	0.00	0.06	0.02	(0.12)	0.05	0.07	0.09
Gold ounces sold	oz	50,606	38,639	57,344	54,107	55,094	58,528	63,000	56,727
Average realized gold price per ounce	\$/oz	1,860	1,895	1,884	1,874	1,799	1,789	1,812	1,761
Cost of sales <sup>1</sup> per gold ounce sold	\$/oz	2,381	1,768	1,597	1,555	1,544	1,357	1,276	1,370
Cash cost <sup>1</sup> per gold ounce sold	\$/oz	2,005	1,403	1,248	1,153	1,172	992	876	1,003

<sup>1</sup>This is a Non-IFRS Measure; please see “Non-IFRS Measures” section.

Quarterly results are predominantly influenced by the number of gold ounces sold, the average realized price per ounce of gold sold, and the cash cost<sup>1</sup> per gold ounce sold. The quarterly year-over-year changes in revenue were primarily related to corresponding changes in gold and silver ounces sold. The relative stability and consistency of the average gold prices, over the eight quarters, had a lesser impact on overall revenues. The lower ounces sold in Q3 2022 was primarily due to lower production and sales at the La Colorada mine. When comparing the quarterly trend, the Q4 2022 average realized gold price was lower than prior quarters as a result of the prevailing lower gold market price. The Company realized higher than market gold prices during Q4 2022 as a result of 32,534 ounces being delivered into the Gold Forwards at \$1,893 per ounce.

The quarterly year-over-year increase in net loss was primarily due to the \$135.5 million in impairments of mineral properties, plant and equipment, \$23.0 million in inventory impairments, and increase in production costs. Impairments were recorded at Florida Canyon, San Agustin, La Colorada, and El Castillo mines. Additionally, as a result of the anticipated closing of the Ana Paula project sale, an impairment was recorded to reduce the asset to its recoverable value based on the terms of the transaction.

<sup>1</sup>This is a Non-IFRS Measure; please see “Non-IFRS Measures” section.

## DISCUSSION OF FINANCIAL RESULTS

Expressed in \$000s	Three months ended December 31,		Year ended December 31,	
	2022	2021	2022	2021
Revenue	\$ 95,877	\$ 102,870	\$ 388,341	\$ 436,911
Cost of sales				
Production costs	80,322	68,278	278,293	253,750
Depreciation, depletion and amortization	17,156	17,314	63,341	71,494
Inventory impairment (reversal)	22,996	(540)	22,879	(2,693)
<b>Total cost of sales</b>	<b>120,474</b>	<b>85,052</b>	<b>364,513</b>	<b>322,551</b>
<b>Gross (loss) profit</b>	<b>(24,597)</b>	<b>17,818</b>	<b>23,828</b>	<b>114,360</b>
Exploration expenses	407	1,063	3,904	4,315
General and administrative expenses	5,113	5,411	18,226	18,130
Other operating (income) expense	(438)	413	(438)	413
Impairment of mineral properties, plant and equipment	135,547	64,877	135,547	64,877
<b>(Loss) profit from operations</b>	<b>(165,226)</b>	<b>(53,946)</b>	<b>(133,411)</b>	<b>26,625</b>
Finance income	813	331	1,197	1,233
Finance expenses	(1,379)	(686)	(3,667)	(2,838)
(Loss) gain on derivatives	(5,630)	2,909	4,588	17,207
Other (expense) income	(7,277)	1,078	(12,666)	309
<b>(Loss) income before income taxes</b>	<b>(178,699)</b>	<b>(50,314)</b>	<b>(143,959)</b>	<b>42,536</b>
Current income tax (recovery) expense	(11,503)	6,618	3,470	34,812
Deferred income tax expense (recovery)	7,741	(19,680)	4,773	(18,805)
<b>Net (loss) income for the period</b>	<b>\$ (174,937)</b>	<b>\$ (37,252)</b>	<b>\$ (152,202)</b>	<b>\$ 26,529</b>

### *Financial results for the three months ended December 31, 2022 and 2021*

#### *Revenue*

Revenue for Q4 2022 was \$95.9 million, a decrease of 7% from \$102.9 million in Q4 2021. During Q4 2022, gold ounces sold totaled 50,606 at an average realized price per ounce of \$1,860, compared to 55,094 gold ounces sold at an average realized price per ounce of \$1,799 during the same period of 2021, a decrease of 8% in ounces sold. Higher average realized gold price per ounce in Q4 2022 was primarily due to 32,534 ounces delivered at \$1,893 per ounce related to the Gold Forwards. Revenue for Q4 2022 from non-forward gold sales was \$32.5 million from 18,072 ounces at an average realized gold price of \$1,801 per ounce.

	Three months ended December 31		
	2022	2021	% Change
Spot price per ounce of gold			
Average	\$ 1,731	\$ 1,796	(3.6)%
Low	\$ 1,629	\$ 1,753	(7.1)%
High	\$ 1,824	\$ 1,865	(2.2)%
Average realized	\$ 1,860	\$ 1,799	3.4 %

### *Production costs*

Production costs for Q4 2022 were \$80.3 million, an increase of 18% from \$68.3 million in Q4 2021, resulting in higher cash cost<sup>1</sup> per gold ounce sold of \$2,005 in Q4 2022 compared to \$1,172 during the same period of 2021, an increase of 71%. The increase in cash cost<sup>1</sup> per gold ounce sold was due to lower production, an increase in material movement, and global inflationary pressures on operating costs as commented earlier and discussed further in the operations sections for the respective mines.

### *Impairment of inventories*

During Q4 2022, the Company recognized inventory impairments of: \$15.7 million at El Castillo, \$4.8 million at Florida Canyon, \$1.6 million at San Agustin and \$0.8 million at La Colorada. These impairments were recorded to reduce the gold inventories to net realizable value.

### *Impairment of mineral properties, plant and equipment*

Impairment of mineral properties, plant and equipment for Q4 2022 was \$135.5 million, compared to \$64.9 million in Q4 2021. The Q4 2022 impairments of mineral properties, plant and equipment consisted of: \$48.1 million at the Florida Canyon mine, \$43.0 million at the San Agustin mine, \$27.3 million at the La Colorada mine, and \$6.7 million at the El Castillo mine. The impairments were largely related to the negative impact of the significant increase in inflation on labour and operating costs, which have a disproportionately higher impact on low-grade heap leach operations. Our Mexican mines were also negatively impacted by land acquisition and permitting challenges, which have resulted in a deferral of mining activities at both San Agustin and La Colorada. Additionally, the Company recorded a \$10.4 million impairment charge related to the Ana Paula project. Please refer to the “Critical Accounting Estimates” section for details.

### *Loss on derivatives*

Loss on derivatives for Q4 2022 was \$5.6 million, compared to a gain of \$2.9 million in Q4 2021. The \$5.6 million loss in Q4 2022 was primarily due to \$4.6 million in unrealized losses on foreign exchange contracts (the “FX Forwards”).

### *Other expense*

Other expense for Q4 2022 was \$7.3 million, compared to other income of \$1.1 million in Q4 2021. Other expense for Q4 2022 was primary due \$6.6 million in foreign exchange losses.

### *Income taxes*

Income tax recovery for Q4 2022 was \$3.8 million compared to \$13.1 million in the same period of 2021. The change was primarily driven by an increase of \$18.1 million in current income tax recoveries due to lower pre-tax income from lower gross profit, impairment charge impact of approximately \$36.9 million, and flow-through share expenditures renunciation of approximately \$6.3 million. There was also a \$27.4 million increase in deferred income tax expense in Q4 2022.

### *Net loss*

Net loss for Q4 2022 was \$174.9 million or \$0.22 per share compared to net loss of \$37.3 million or \$0.12 per share for Q4 2021.

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<sup>1</sup>This is a Non-IFRS Measure; please see “Non-IFRS Measures” section.

## ***Financial results for the year ended December 31, 2022 and 2021***

### ***Revenue***

Revenue for 2022 was \$388.3 million, a decrease of 11% from \$436.9 million in 2021. During 2022, gold ounces sold totaled 200,695 at an average realized price per ounce of \$1,877, compared to 233,349 gold ounces sold at an average realized price per ounce of \$1,791 during 2021, a decrease of 14% ounces sold. Higher average realized gold price per ounce compared to 2021 was partially due to 90,000 ounces delivered at \$1,905 per ounce related to the Gold Forwards. Revenue for 2022 from non-forward sales was \$205.3 million from 110,695 ounces delivered at an average realized gold price of \$1,855 per ounce. The 90,000 Gold Forwards, entered into during the second quarter of the year, have been fully delivered as at December 31, 2022.

	Year ended ended December 31		
	2022	2021	% Change
Spot price per ounce of gold			
Average	\$ 1,802	\$ 1,799	0.2 %
Low	\$ 1,629	\$ 1,684	(3.3)%
High	\$ 2,039	\$ 1,943	4.9 %
Average realized	\$ 1,877	\$ 1,791	4.8 %

### ***Production costs***

Production costs for 2022 were \$278.3 million, an increase of 10% from \$253.8 million in 2021, resulting in cash cost<sup>1</sup> per gold ounce sold of \$1,443 in 2022 compared to \$1,006 in 2021, an increase of 43%. The increase in cash cost<sup>1</sup> per gold ounce sold was primarily due to lower gold ounces sold of 14%, an increase in material mined and processed at lower gold grades, and the inflationary pressures on operating costs as commented earlier and as discussed further in the operations sections for the respective mines.

### ***Impairment of inventories***

During 2022, the Company recognized inventory impairments of: \$15.7 million at El Castillo, \$4.8 million at Florida Canyon, \$1.6 million at San Agustin and \$0.8 million at La Colorada. These impairments were recorded to reduce the gold inventories to net realizable value.

### ***Impairment of mineral properties, plant and equipment***

Impairment of mineral properties, plant and equipment for 2022 was \$135.5 million, compared to \$64.9 million in 2021. The 2022 impairments of mineral properties, plant and equipment consisted of: \$48.1 million at the Florida Canyon mine, \$43.0 million at the San Agustin mine, and \$27.3 million at the La Colorada mine, and \$6.7 million at the El Castillo mine. The impairments were largely related to the negative impact of the significant increase in inflation on labour and operating costs, which have a disproportionately higher impact on low-grade heap leach operations. Our Mexican mines were also negatively impacted by land acquisition and permitting challenges, which have resulted in a deferral of mining activities at both San Agustin and La Colorada. Additionally, the Company recorded a \$10.4 million impairment charge related to the Ana Paula project. Please refer to the “Critical Accounting Estimates” section for details.

### ***Gain on derivatives***

Gain on derivatives for 2022 was \$4.6 million, compared to a gain of \$17.2 million in 2021. The gain in 2022 was primarily due to a \$10.5 million adjustment on the change in fair value of the derivative liability component of convertible debentures, partially offset by \$4.6 million in unrealized losses on foreign exchange forwards.

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<sup>1</sup>This is a Non-IFRS Measure; please see “Non-IFRS Measures” section.

### *Other expense*

Other expense for the year ended December 31, 2022 was \$12.7 million, a decrease from other income of \$0.3 million in 2021, primarily related to \$8.7 million in foreign exchange translation losses and \$2.3 million in transaction costs incurred on assessing financing alternatives.

### *Income taxes*

Income tax expense for the year ended December 31, 2022 was \$8.2 million, compared to \$16.0 million in 2021. The change was primarily due to a \$31.3 million decrease in current income tax expense due to lower pre-tax income from lower gross profit, impairment charge impact of approximately \$36.9 million, and flow-through share expenditures renunciation of approximately \$6.3 million. There was also a \$23.6 million increase in deferred income tax recoveries during the year ended December 31, 2022.

### *Net (loss) income*

Net loss was \$152.2 million or \$0.28 per share for 2022, compared to net income of \$26.5 million or \$0.09 per basic share or \$0.08 per diluted share for 2021.

## **DISCUSSION OF 2022 OPERATIONAL RESULTS AND 2023 OUTLOOK**

### **Magino Project**

#### Construction

By the end of 2022, the Company had incurred approximately \$583 million, and estimated the project was 80% complete. Management believes the Company is well positioned to complete the construction and ramp-up of the Magino project.

During Q4 2022 and the year 2022, the Company incurred \$73.5 million and \$335.3 million, respectively, in costs related to the construction of the Magino project. Of this amount incurred, the majority was for the mineral processing plant, site development, and construction overhead costs. The first phase of the tailings management facility has been completed and accepted by the Engineer of Record. The project team continues to closely monitor construction progress of the power plant. As a proactive risk mitigation measure, rental power has been secured for the plant commissioning and to provide power during initial operations. Initial gold production has been delayed to mid-May 2023 primarily due to a trade strike that impacted concrete work in May 2022 and a construction fatality, the related stand-down and additional safety measures implemented in November 2022.

The Magino project's estimated EAC was increased from \$730 million (CA\$920 million) to \$755 million (CA\$980 million). The increase in costs were largely attributed to: (i) an anticipated 45-day delay to first pour, which results in higher capitalized overheads; (ii) higher earthworks costs related to higher fuel prices and scope changes; (iii) higher power costs; and (iv) changes to reduce risks in the mine plan, partially offset by the weakening of the Canadian dollar against the US dollar. Those activities under the Company's scope include earthworks, on-site infrastructure, and site power, and are all proceeding on schedule for completion in time for the anticipated first pour in mid-May 2023. Ausenco Engineering Canada Inc., the engineering firm contracted by the Company to complete the mineral processing plant and related infrastructure, is on schedule for the same timing as well. The site team is in the process of ramping up the operations team for full operations. Ore mining commenced ahead of schedule in January 2023 to allow for the buildup of an ore stockpile to de-risk operations. The commissioning team is arriving on site and the site team is focused on operations readiness.

Ramp up to commercial production is expected to take three months following first pour in mid-May 2023, thereby placing the project on schedule for commercial production, estimated in the third quarter 2023.



## 2023 Outlook

		<b>2023 (Source: Technical Report LOM<sup>2</sup>)</b>	<b>Guidance for 2023</b>
<b><i>Magino Operating Results</i></b>			
Tonnes ore mined	000s	4,132	3,500 - 4,000
Tonnes waste	000s	15,487	13,000 - 16,000
Tonnes total mined	000s	19,619	16,500 - 20,000
Grade mined	g/t	1.07	0.95 - 1.00
Contained ounces mined	oz	142,677	120,000 - 130,000
Strip ratio	%	3.75	3.50 - 4.00
Total milled	000s	2,236	2,000 - 2,100
Processed grade	g/t	1.40	1.30 - 1.35
Recovery rate	%	91	89 - 91
GEOs produced	oz	89,312	72,000 - 81,000
Cost of sales <sup>1</sup> per gold ounce sold	\$/oz	1,148	1,150 - 1,250
Cash cost <sup>1</sup> per gold ounce sold	\$/oz	863	850 - 950
AISC <sup>1</sup> per gold ounce sold	\$/oz	1,144	1,150 - 1,250
Production cost	\$000s	77,116	77,000 - 81,000
<b><i>Cost Per Tonne</i></b>			
Mining	\$/t	2.61	2.60 - 3.00
Mining (ore tonne)	\$/t	10.07	10.00 - 11.00
Processing	\$/t	11.80	11.80 - 12.50
General and administrative	\$/t	6.79	6.80 - 7.20
<b><i>Capital Expenditures</i></b>			
Sustaining capital	\$000s	27,869	28,000 - 30,000
Reclamation capital	\$000s	8,731	3,500 - 4,500
Magino construction capital	\$000s	171,000	173,000

<sup>1</sup>This is a Non-IFRS Measure; please see “Non-IFRS Measures” section.

<sup>2</sup>This column represents only 2023 projections, from the 2022 technical report.

The plan at Magino is based on a mid-May first gold pour with commercial production expected to follow approximately 90 days later. Mine operating statistics reflect the full year, beginning in January. The financial statistics do not commence until mid-May and the plan anticipates that construction costs will be capitalized within mineral properties, plant and equipment for the first four and a half months of the year.

Ore and waste tonnes mined in 2023 are planned to be in line with the life of mine plan (“LOM”) plan. Two changes were made to de-risk the plan, including commencement of ore mining earlier than originally planned to de-risk mining and processing during the first part of the year; and modification of the mine plan, resulting in a 10% decrease in grade mined. Compared to the LOM plan in the 2022 Technical Report, tonnes milled is expected to be about 10% lower than the LOM plan due to the 45-day delay in commissioning, partially offset by the planned processing of historic tailings during the fourth quarter of 2023.

Total site costs are expected to be marginally higher than the LOM plan. Mining costs have increased compared to the LOM plan due primarily to a 20% increase in diesel costs as well as a 97% increase in explosive costs. The cost of explosives is projected to increase due to both smaller drill patterns requiring additional explosives and significantly higher explosive costs.

Production is expected to be lower than the LOM plan by 15% due to the anticipated 45-day delay in startup. Cost of sales<sup>1</sup> per ounce are expected to be \$1,150 - \$1,250 for 2023. Overall cash costs<sup>1</sup> and AISC<sup>1</sup> per ounce are expected to be about 5% higher than the LOM plan due to an increase in mining costs.

### Florida Canyon Mine

Operating Statistics for the Florida Canyon Mine		Three months ended December 31,		Year ended December 31,	
		2022	2021	2022	2021
Tonnes ore	000s	3,032	1,845	9,488	8,475
Tonnes waste	000s	2,706	2,687	13,597	12,274
Tonnes mined	000s	5,738	4,532	23,085	20,749
Waste/ore ratio	%	0.89	1.46	1.43	1.45
Tonnes ore direct to leach pads	000s	1,337	181	2,718	1,574
Tonnes crushed	000s	1,690	1,522	6,820	6,786
Gold grade to leach pads	g/t	0.29	0.35	0.31	0.33
Contained gold ounces to leach pads	oz	28,373	18,947	96,584	89,584
Gold ounces produced	oz	12,998	14,205	49,440	53,889
Gold ounces sold	oz	13,979	12,531	49,616	54,330
Silver ounces produced	oz	4,960	8,159	30,414	27,681
Silver ounces sold	oz	9,012	8,040	31,593	32,147
GEOs produced (2022 - 80:1 ratio; 2021 - 85:1 ratio)	oz	13,060	14,301	49,820	54,215
GEOs sold (2022 - 80:1 ratio; 2021 - 85:1 ratio)	oz	14,092	12,625	50,011	54,708
Cost of sales <sup>1</sup> per gold ounce sold	\$/oz	\$ 2,295	\$ 2,011	\$ 2,001	\$ 1,594
Cash cost <sup>1</sup> per gold ounce sold	\$/oz	\$ 2,036	\$ 1,774	\$ 1,751	\$ 1,356

<sup>1</sup>This is a Non-IFRS Measure; please see “Non-IFRS Measures” section.

During Q4 2022, the Florida Canyon mine produced 12,998 gold ounces and 4,960 silver ounces, or 13,060 GEOs, a decrease of 8% from 14,205 gold ounces and 8,159 silver ounces, or 14,301 GEOs in Q4 2021. The decrease in gold ounces produced during Q4 2022 was primarily due to 17% lower ore grades placed on the pad, partially offset by a sevenfold increase in run-of-mine (“ROM”) tonnage placed on the pad, which has a lower recovery rate than crushed tonnes. Cash cost<sup>1</sup> per gold ounce sold of \$2,036 was higher than the prior period due to labour availability and overall inflationary cost pressures.

During 2022, the Florida Canyon mine produced 49,440 gold ounces and 30,414 silver ounces, or 49,820 GEOs, a decrease of 8% compared to 53,889 gold ounces and 27,681 silver ounces, or 54,215 GEOs in 2021. Lower gold production was due to lower grades and lower recovery rates from ROM ore, partially offset by higher run of mine tonnes placed on the pad. Cash cost<sup>1</sup> per gold ounce sold was \$1,751 for 2022, an increase of 29% from \$1,356 in 2021 primarily due to an 11% increase in material moved and global inflationary pressure on operating costs and 8% lower production. During 2022, the inflationary cost pressures and reduction in the metallurgical recoveries resulted in a \$48.1 million impairment charge on property, plant, and equipment. There was also a \$4.8 million inventory impairment for the Florida Canyon mine recorded in Q4 2022 and the year 2022.

Capital expenditures at the Florida Canyon mine during 2022 was \$9.9 million, primarily related to the asset retirement obligation and capitalized stripping.

<sup>1</sup>This is a Non-IFRS Measure; please see “Non-IFRS Measures” section.

## 2023 Outlook

		Actual for 2022	Guidance for 2023
<b>Florida Canyon Operating Results</b>			
Tonnes ore mined	000s	9,488	9,300 - 10,000
Tonnes waste	000s	13,597	12,800 - 13,700
Tonnes total mined	000s	23,085	22,100 - 23,700
Grade mined	g/t	0.31	0.30 - 0.35
Contained ounces mined	oz	96,143	105,000 - 115,000
Strip ratio	%	1.43	1.25 - 1.75
Crushed tonnes	000s	6,820	5,500 - 6,000
ROM tonnes to the leach pads	000s	2,718	3,800 - 4,000
Crushed grade	g/t	0.33	0.37 - 0.41
ROM grade	g/t	0.27	0.20 - 0.25
Processed grade	g/t	0.31	0.30 - 0.35
Crushed Recovery	%	64	62 - 64
ROM Recovery	%	53	51 - 53
Recovery rate	%	61	59 - 61
Recoverable placed	oz	59,095	65,000 - 71,000
GEOs produced	oz	49,820	55,000 - 65,000
Cost of sales <sup>1</sup> per gold ounce sold	\$/oz	2,001	1,675 - 1,775
Cash cost <sup>1</sup> per gold ounce sold	\$/oz	1,751	1,400 - 1,500
AISC <sup>1</sup> per gold ounce sold	\$/oz	2,163	1,700 - 1,800
Production cost	\$000s	86,892	95,000 - 100,000
<b>Cost/Tonne</b>			
Mining	\$/t	2.09	2.25 - 2.50
Mining (ore tonne)	\$/t	5.08	5.25 - 5.50
Crushing	\$/t	1.69	2.10 - 2.30
Processing	\$/t	2.13	1.70 - 2.00
General and administrative	\$/t	1.50	1.50 - 1.75
<b>Capital Expenditures</b>			
Sustaining capital	\$000s	20,417	18,000 - 19,000

<sup>1</sup>This is a Non-IFRS Measure; please see “Non-IFRS Measures” section.

At Florida Canyon, ore and total tonnes mined are expected to be in line with 2023 guidance compared to the prior year. Grade is also expected to be marginally higher than in 2022. A decision was made to increase the mining rate and place more run of mine ore on the leach pad than in prior years. As a result, total tonnes placed on the leach pad is expected to be approximately 10% higher than last year, however, the run of mine material recovery rates are lower than the crushed ore tonnes. Overall, the combination of higher tonnage placed on the pad and higher grades is expected to result in a 20% increase in production. Site costs are expected to increase by \$10 million or 10% compared to prior year, resulting in higher unit costs. Cost of sales<sup>1</sup> per gold ounce sold are expected to be \$1,675 - \$1,775 for 2023. Cash costs<sup>1</sup> and AISC<sup>1</sup> per gold ounce sold are expected to be between 10% and 20% lower than last year due to the higher production. During 2022, the Florida Canyon mine recorded a \$48.1 million impairment charge; however, we are working to stabilize and optimize the current oxide operation, as well as begin a proof-of-concept program for the sulfides resources. If successful, these improvements are expected to improve cash flow generation at the Florida Canyon mine.

<sup>1</sup>This is a Non-IFRS Measure; please see “Non-IFRS Measures” section.

Capital expenditures for the year are expected to be \$18.0 - \$19.0 million primarily related to equipment leases, site equipment overhauls and infill drilling.

## El Castillo Mining Complex

### San Agustin Mine

Operating Statistics for the San Agustin Mine		Three months ended December 31,		Year ended December 31,	
		2022	2021	2022	2021
Tonnes ore	000s	2,484	2,815	10,696	11,001
Tonnes waste	000s	2,599	1,834	8,550	6,865
Tonnes mined	000s	5,083	4,649	19,246	17,866
Waste/ore ratio	%	1.05	0.65	0.80	0.62
Tonnes crushed	000s	2,497	2,627	10,697	11,210
Gold grade to leach pads	g/t	0.26	0.30	0.28	0.30
Contained gold ounces to leach pads	oz	20,990	25,485	94,725	106,783
Gold ounces produced	oz	13,465	16,498	65,839	68,132
Gold ounces sold	oz	17,719	15,672	65,844	68,778
Silver ounces produced	oz	47,726	111,451	310,025	508,661
Silver ounces sold	oz	55,086	103,585	337,168	499,366
GEOs produced (2022 - 80:1 ratio; 2021 - 85:1 ratio)	oz	14,061	17,809	69,714	74,116
GEOs sold (2022 - 80:1 ratio; 2021 - 85:1 ratio)	oz	18,408	16,891	70,059	74,653
Cost of sales <sup>1</sup> per gold ounce sold	\$/oz	1,907	1,525	1,615	1,393
Cash cost <sup>1</sup> per gold ounce sold	\$/oz	1,486	1,060	1,164	915

<sup>1</sup>This is a Non-IFRS Measure; please see “Non-IFRS Measures” section.

During Q4 2022, the San Agustin mine produced 13,465 gold ounces and 47,726 silver ounces, or 14,061 GEOs, a decrease of 18% from 16,498 gold ounces and 111,451 silver ounces, or 17,809 GEOs in Q4 2021, primarily due to lower ore tonnes mined and processed and lower grade. Cash cost<sup>1</sup> per gold ounce sold for Q4 2022 was \$1,486, an increase of 40% from \$1,060 for Q4 2021, primarily due to an increase in material mined by 9%, lower production of 18% and global inflationary pressures on operating costs.

During 2022, the San Agustin mine produced 65,839 gold ounces and 310,025 silver ounces or 69,714 GEOs, a decrease of 3% compared to 68,132 gold ounces and 508,661 silver ounces or 74,116 GEOs in 2021, a decrease of 6%. The lower production was due to lower gold and silver grades processed in 2022. Cash cost<sup>1</sup> per gold ounce sold for 2022 was \$1,164, an increase of 27% from \$915 for 2021, primarily due to a 6% reduction in production and global inflationary pressures on operating costs in 2022. Additionally, during 2022, an impairment analysis was triggered which resulted in a \$43.0 million impairment. The inflationary cost pressures, deferral of mining activities, and challenges with permitting and land acquisition resulted in a \$43.0 million impairment charge for the San Agustin mine recorded in Q4 2022 and the year 2022.

Capital expenditures at the San Agustin mine during Q4 2022 and the year 2022 were \$1.2 million and \$2.7 million, respectively, primarily related to power-line and exploration costs.

## 2023 Outlook

		Actual for 2022	Guidance for 2023
<b>San Agustin Operating Results</b>			
Tonnes ore mined	000s	10,696	4,600 - 5,000
Tonnes waste	000s	8,550	3,300 - 3,600
Tonnes total mined	000s	19,246	7,900 - 8,600
Grade mined	g/t	0.28	0.25 - 0.30
Contained ounces mined	oz	94,716	45,000 - 50,000
Strip ratio	%	0.80	0.65 - 0.75
Crushed tonnes	000s	10,697	4,600 - 5,000
Crushed grade	g/t	0.28	0.25 - 0.30
Recovery rate	%	66	65 - 66
Recoverable placed	oz	62,105	29,000 - 32,000
GEOs produced	oz	69,714	35,000 - 39,000
Cost of sales <sup>1</sup> per gold ounce sold	\$/oz	1,615	1,750 - 1,850
Cash cost <sup>1</sup> per gold ounce sold	\$/oz	1,164	1,400 - 1,500
AISC <sup>1</sup> per gold ounce sold	\$/oz	1,193	1,500 - 1,600
Production cost	\$000s	76,621	62,000 - 64,000
<b>Cost/Tonne</b>			
Mining	\$/t	1.84	2.30 - 2.50
Mining (ore tonne)	\$/t	3.31	4.00 - 4.50
Crushing	\$/t	1.24	1.30 - 1.45
Processing	\$/t	2.88	3.75 - 4.00
General and administrative	\$/t	0.56	1.40 - 1.50
<b>Capital Expenditures</b>			
Sustaining capital	\$000s	1,871	3,000 - 4,000

<sup>1</sup>This is a Non-IFRS Measure; please see “Non-IFRS Measures” section.

For 2023, the mine plan has been adjusted as a result of land access and permitting constraints. The majority of phase 4 is being deferred until land access and permits are received, removing approximately 125,000 ounces from the current mine plan. As a result, ore and total tonnes mined are expected to be between 50% and 60% lower than in 2022, while grades are expected to be similar year-over-year. The lower ore mined results in lower ore tonnes placed on the leach pad by between 50% and 60%. Gold production is expected to be lower by 40% to 50%, despite benefiting from ore placed on the leach pad late in 2022 and recovered in 2023. Unit mining and processing costs are expected to rise by about 30% due in part to lower mining and processing rates, as well as higher operating costs than in 2022. Consumable and labour costs are budgeted to increase compared to the prior year. Cost of sales<sup>1</sup> per gold ounce sold are expected to be \$1,750 - \$1,850 for 2023. Cash costs<sup>1</sup> and AISC<sup>1</sup> per gold ounce sold are expected to be 25% to 30% higher than in 2022 due to lower production and higher operating costs.

Capital expenditures for the year are primarily to acquire land which is expected to extend the mine life.

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<sup>1</sup>This is a Non-IFRS Measure; please see “Non-IFRS Measures” section.

## El Castillo Mine

Operating Statistics for the El Castillo Mine		Three months ended December 31,		Year ended December 31,	
		2022	2021	2022	2021
Tonnes ore	000s	2,521	2,116	7,856	9,159
Tonnes waste	000s	636	2,752	7,944	10,220
Tonnes mined	000s	3,157	4,868	15,800	19,379
Waste/ore ratio	%	0.25	1.30	1.01	1.12
Tonnes ore direct to leach pads	000s	2,521	2,125	7,856	9,168
Gold grade to leach pads	g/t	0.36	0.32	0.33	0.28
Contained gold ounces to leach pads	oz	29,550	22,034	82,426	83,638
Gold ounces produced	oz	9,517	12,313	41,549	48,131
Gold ounces sold	oz	11,421	11,066	42,886	47,755
Cost of sales <sup>1</sup> per gold ounce sold	\$/oz	3,557	1,536	2,328	1,530
Cash cost <sup>1</sup> per gold ounce sold	\$/oz	3,047	1,081	1,851	1,099

<sup>1</sup>This is a Non-IFRS Measure; please see “Non-IFRS Measures” section.

The El Castillo mine produced 9,517 of gold ounces in Q4 2022, 23% lower than the 12,313 gold ounces produced in Q4 2021. Despite higher gold grades and tonnes processed, gold ounces produced decreased due to lower recovery rates in the sulfide material. Cash cost<sup>1</sup> per gold ounce sold for Q4 2022 was \$3,047, nearly tripling from \$1,081 for Q4 2021 primarily due to an inventory impairment of \$15.7 million, the placement of sulfide material with lower recoveries, higher operating costs from inflationary pressures, and the expensing of all remaining capitalized deferred stripping cost into production costs due to the accelerated cessation of active mining.

During 2022, the El Castillo mine produced 41,549 gold ounces, a decrease of 14% compared to 48,131 gold ounces in 2021. The 14% decrease in production was due to a 14% reduction in ore mined and processed, as higher gold grades offset lower recovery rates for the year. Cash cost<sup>1</sup> per gold ounce sold during 2022 was \$1,851, 68% higher compared to cash cost<sup>1</sup> per gold ounce sold of \$1,099 in 2021. The increase in cash cost<sup>1</sup> per gold ounce sold over the same period of 2021 was due to lower production and higher costs. The higher costs were due to increased operating costs, an inventory impairment of \$15.7 million, and the expensing of all remaining capitalized deferred stripping cost into production costs due to the accelerated cessation of active mining.

Capital expenditures at the El Castillo mine during Q4 2022 and the year 2022 were \$2.5 million and \$5.7 million, respectively.

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<sup>1</sup>This is a Non-IFRS Measure; please see “Non-IFRS Measures” section.

## 2023 Outlook

		Actual for 2022	Guidance for 2023
<b><i>El Castillo Operating Results</i></b>			
Tonnes ore mined	000s	7,856	—
Tonnes waste	000s	7,944	—
Tonnes total mined	000s	15,800	—
Grade mined	g/t	0.33	—
Contained ounces mined	oz	80,538	—
Strip ratio	%	1.01	—
Total milled	000s	7,856	—
Processed grade	g/t	0.33	—
Recovery rate	%	44	—
Recoverable placed	oz	36,324	—
GEOs produced	oz	41,991	10,000 - 14,000
Cost of sales <sup>1</sup> per gold ounce sold	\$/oz	2,328	2,000 - 2,100
Cash cost <sup>1</sup> per gold ounce sold	\$/oz	1,851	1,650 - 1,750
AISC <sup>1</sup> per gold ounce sold	\$/oz	1,955	1,700 - 1,800
Production cost	\$000s	79,383	23,000 - 24,000
<b><i>Cost/Tonne</i></b>			
Mining	\$/t	2.25	—
Mining (ore tonne)	\$/t	4.58	—
Processing	\$/t	3.65	—
General and administrative	\$/t	0.77	—
<b><i>Capital Expenditures</i></b>			
Sustaining capital	\$000s	3,917	—
Reclamation capital	\$000s	—	6,000 - 7,000

<sup>1</sup>This is a Non-IFRS Measure; please see “Non-IFRS Measures” section.

At the El Castillo mine, mining activities were suspended in late December 2022. For 2023, site activities include leaching of the ore placed on the pad in 2022 and re-leaching to rinse the pads as part of the reclamation process. As a result, production is expected to decline by about 75%. Operating costs are limited to processing and general and administrative costs. Cost of sales<sup>1</sup> per gold ounce sold are expected to be \$2,000 - \$2,100 for 2023. Cash costs<sup>1</sup> and AISC<sup>1</sup> per gold ounce sold are expected to be lower through the first two quarters.

The majority of site activities in 2023 will be focused on reclamation. Nearly half of the estimated \$6 million reclamation budget will be directed to rinsing the leach pads with the balance spent on activities such as recontouring pits, waste dumps, and reforestation. Management made the decision to suspend mining activities in December 2022, one quarter earlier than planned. The earlier than planned wind up of mining activities was due to the higher operating cost structure from global inflation and lower recovery rates in the sulfide material which rendered the operation no longer profitable.

<sup>1</sup>This is a Non-IFRS Measure; please see “Non-IFRS Measures” section.

## La Colorado Mine

Operating Statistics		Three months ended December 31,		Year ended December 31,	
		2022	2021	2022	2021
Tonnes ore	000s	356	1,233	2,897	4,834
Tonnes waste	000s	5,341	3,228	21,843	11,389
Tonnes mined	000s	5,697	4,461	24,740	16,223
Waste/ore ratio	%	15.04	2.62	7.54	2.36
Tonnes crushed	000s	408	1,246	3,095	5,014
Gold grade to leach pads	g/t	0.35	0.54	0.43	0.63
Contained gold ounces to leach pads	oz	4,596	21,726	42,682	101,146
Gold ounces produced	oz	5,663	16,885	40,346	64,860
Gold ounces sold	oz	7,487	15,825	42,349	62,486
Silver ounces produced	oz	11,025	40,174	102,755	178,821
Silver ounces sold	oz	11,761	36,635	112,061	169,634
GEOs produced (2022 - 80:1 ratio; 2021 - 85:1 ratio)	oz	5,800	17,358	41,630	66,964
GEOs sold (2022 - 80:1 ratio; 2021 - 85:1 ratio)	oz	7,634	16,256	43,750	64,482
Cost of sales <sup>1</sup> per gold ounce sold	\$/oz	1,851	1,232	1,395	1,117
Cash cost <sup>1</sup> per gold ounce sold	\$/oz	1,584	869	1,103	730

<sup>1</sup>This is a Non-IFRS Measure; please see “Non-IFRS Measures” section.

During Q4 2022, the La Colorado mine produced 5,663 gold ounces and 11,025 silver ounces, or 5,800 GEOs, a decrease of 66% compared to 16,885 gold ounces and 40,174 silver ounces, or 17,358 GEOs in Q4 2021. Gold ounces produced during Q4 2022 decreased due to a 67% reduction in processed tonnes and 35% lower grades, as a result of fewer higher grade ore tonnes mined and processed from the higher grade El Creston pit compared to Q4 2021. Cash cost<sup>1</sup> per gold ounce sold for Q4 2022 was \$1,584, an increase of 82% from \$869 in Q4 2021, primarily related to lower gold and silver production, increase in material movement, and global inflationary pressure on operating costs.

During 2022, the La Colorado mine produced 40,346 gold ounces and 102,755 silver ounces, or 41,630 GEOs, a decrease of 38% compared to 64,860 gold ounces and 178,821 silver ounces, or 66,964 GEOs in 2021. Gold production was expected to decline by approximately 25% in 2022 due to lower ore tonnes mined and sequencing, however, drill hole contamination at the bottom of the historic El Creston drill holes resulted in an overestimation in ore tonnes in the reserve model. As a result, fewer than planned higher grade El Creston tonnes were placed on the leach pad in 2022. The second operating pit, Veta Madre, had lower grades and recovery rates compared to the El Creston pit. Cash cost<sup>1</sup> per gold ounce sold at La Colorado for 2022 was \$1,103, an increase of 51% compared to cash cost<sup>1</sup> per gold ounce sold of \$730 in 2021. The increase in cash cost<sup>1</sup> per gold ounce sold was primarily related to lower gold and silver production, an increase in material movement, and global inflationary pressure on operating costs. Additionally, during 2022, an impairment analysis was triggered which resulted in a \$27.3 million impairment charge due to inflationary cost pressures and deferral of mining activities.

Capital expenditures at the La Colorado mine during Q4 2022 and the year 2022 were \$7.2 million and \$19.7 million, respectively, primarily from capitalized stripping and exploration.

<sup>1</sup>This is a Non-IFRS Measure; please see “Non-IFRS Measures” section.



## 2023 Outlook

		Actual for 2022	Guidance for 2023
<b>La Colorada Operating Results</b>			
Tonnes ore mined	000s	2,897	1,900 - 2,000
Tonnes waste	000s	21,843	3,300 - 3,500
Tonnes total mined	000s	24,740	5,200 - 5,500
Grade mined	g/t	0.43	0.57 - 0.63
Contained ounces mined	oz	39,799	39,000 - 42,000
Strip ratio	%	7.54	1.50 - 2.00
Crushed tonnes	000s	3,095	1,900 - 2,000
Crushed grade	g/t	0.43	0.57 - 0.63
Crushed Recovery	%	75	71 - 72
Recoverable placed	oz	31,819	27,000 - 30,000
GEOs produced	oz	41,630	27,000 - 30,000
Cost of sales <sup>1</sup> per gold ounce sold	\$/oz	1,395	1,400 - 1,500
Cash cost <sup>1</sup> per gold ounce sold	\$/oz	1,103	1,200 - 1,300
AISC <sup>1</sup> per gold ounce sold	\$/oz	1,571	1,350 - 1,450
Production cost	\$000s	46,708	39,000 - 41,000
<b>Cost/Tonne</b>			
Mining	\$/t	1.49	3.10 - 3.30
Mining (ore tonne)	\$/t	12.75	7.60 - 8.00
Crushing	\$/t	1.74	1.80 - 2.00
Processing	\$/t	4.03	4.75 - 5.00
General and administrative	\$/t	1.46	2.00 - 2.20
<b>Capital Expenditures</b>			
Sustaining capital	\$000s	17,495	1,000 - 1,500

<sup>1</sup>This is a Non-IFRS Measure; please see “Non-IFRS Measures” section.

La Colorada consists of two open pit operations. The two pits are El Creston, the higher grade of the two pits, and the Veta Madre pit. In the beginning of 2023, the decision was made to suspend stripping activities at El Creston pit, until an underground mining trade-off study is completed. The trade-off study, expected to be completed in mid-2023, is being conducted to determine the most profitable and lowest risk path forward to mine the high-grade material at the bottom of El Creston pit. At the Veta Madre pit, permitting delays have resulted in approximately 80,000 ounces being removed from the current mine plan.

As a result of the decision to suspend stripping at El Creston pit together with permitting delays at the Veta Madre pit, ore mined is expected to decrease by one-third and total tonnes mined to decline by 75%. Ore processed is expected to be one-third lower due to the lower ore mining rates. While grades mined are expected to be about 40% higher than in 2022, production is projected to decrease by approximately 25%. Unit mining costs are expected to double based on the lower efficiencies of the mining contractor. Cost of sales<sup>1</sup> per gold ounce sold are expected to be \$1,400 - \$1,500 for 2023. Cash costs<sup>1</sup> per gold ounce sold are expected to be approximately 25% higher than last year, however, AISC<sup>1</sup> per gold ounce sold are expected to be 5% to 10% lower due to lower capital expenditures in 2023.

Capital expenditures for 2023 are primarily related to mining and processing equipment.

<sup>1</sup>This is a Non-IFRS Measure; please see “Non-IFRS Measures” section.

## Advanced Exploration and Development Projects

### Exploration

In March 2022, the Company completed a flow-through financing for \$9.1 million (CA\$11.5 million), which is being spent on qualified Canadian exploration expenditures (“CEE”).

During Q4 2022, the Company completed an additional 3,955 metres of drilling, including 12 drill holes on high-grade underground targets at the Magino project site and 6 drill holes on regional targets. As of December 31, 2022, the Company has completed 218 diamond drill holes and approximately 139,400 total metres of drilling since the beginning of the exploration program in 2019.

The use of proceeds from the March and July 2022 financings is summarized as follows:

Expressed in \$ millions	Amounts raised	Incurred to December 31, 2022	Remaining
Magino Construction <sup>1</sup>	\$ 44.8	\$ 41.9	\$ 2.9
Magino Exploration <sup>2</sup>	\$ 9.1	\$ 8.4	\$ 0.7

<sup>1</sup>Amounts raised were from the March 2022 \$31.8 million (CA\$40.3 million) and November 2022 \$12.9 million (CA\$17.3 million) CDE flow-through financing. The March 2022 CDE has been fully spent.

<sup>2</sup>The \$9.1 million (CA\$11.5 million) was raised from the flow-through financing in March 2022, and is being spent on CEE.

### *Cerro del Gallo project*

Capital expenditures for the Cerro del Gallo project during Q4 2022 and the year 2022 were \$0.3 million and \$1.3 million, respectively, primarily incurred from technical services and personnel costs. In Q3 2021, the Company received notice from SEMARNAT, the federal environmental regulatory agency in Mexico, that the mandatory time in which it has to make an environmental permit decision had expired. The Company continues working on baseline studies and preparing a new Environmental Impact Assessment, Environmental Risk Analysis, and Land Use Change for the Cerro del Gallo project.

### *San Antonio option*

In December 2022, the Company entered into an Option Agreement with Heliostar, whereby Heliostar has been granted the option to acquire a 100% interest in and to the Company’s San Antonio gold exploration stage project, located in Baja California Sur, Mexico. The term of the Option Agreement is for a three-year period, provided, however, the term may be extended for an additional 18-months in the event Heliostar is able to successfully acquire the required environmental permits to advance the San Antonio gold project. The consideration payable upon exercise of the option is summarized below:

1. A cash payment to Argonaut of \$80.0 million in the event the average gold price is below \$1,800 per ounce for the six months preceding Heliostar exercising the option; or
2. A cash payment to Argonaut of \$120.0 million in the event the average gold price is between \$1,800 per ounce to \$2,000 per ounce for the six months preceding Heliostar exercising the option; or
3. A cash payment to Argonaut of \$150.0 million in the event the average gold price is above \$2,000 per ounce for the six months preceding Heliostar exercising the option; and
4. Granting Argonaut a 2% net smelter return royalty in the event of exercise of the option (capped at 2% for claims with existing net smelter return royalty considerations).

During 2019, the Mexican Environmental Authority issued a ruling not to approve the Environmental Impact Assessment for the Company’s San Antonio project. As a result of this decision and the uncertainty over the timing

of the Company's ability to advance the project, the Company recorded an impairment of \$111.0 million in the year ended December 31, 2019 to write-down the carrying amount of the project.

## **Health and Safety**

The health and safety of personnel at site is of utmost importance and procedures are regularly undertaken to minimize the impact of COVID-19 and other health matters on the workforce. There were three significant lost time accidents during 2022, including a fatality at the Magino project.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company's cash and cash equivalents balance as at December 31, 2022 was \$73.3 million, as compared to \$199.2 million as at December 31, 2021. The Company's net debt<sup>1</sup> as at December 31, 2022 was \$4.3 million, compared to net cash<sup>1</sup> of \$119.2 million as at December 31, 2021. A summary of the significant financings and certain other activities during 2022 is provided below.

### *Loan Facilities*

In October 2022, the Company closed a \$250.0 million financing package (collectively referred to as the "Loan Facilities") for the ongoing development and construction of the Magino project. The Loan Facilities consist of a term loan of \$200.0 million (referred to as the "Term Loan") and a revolving credit facility of \$50.0 million (referred to as the "Revolving Credit Facility").

The Company incurred transaction costs and upfront fees of \$7.9 million on closing of the Loan Facilities, which were proportionally allocated between the Term Loan (\$6.3 million) and Revolving Credit Facility (\$1.6 million) based on the proportionate share of expected drawdowns.

The transaction costs are being amortized separately over the life of the Term Loan and the Revolving Credit Facility, and have been presented as a reduction in the outstanding balance of each, when drawn, and presented in other assets, when undrawn. The Loan Facilities are secured by the mineral properties and related plant and equipment of the Company, excluding the Company's Cerro del Gallo project, the San Antonio project, and the Ana Paula project.

The Company is subject to both financial and nonfinancial covenants in relation to the Loan Facilities. The covenants include those that require the Company to maintain certain tangible net worth and ratios for leverage and interest coverage. The Company was in compliance with all covenants as at December 31, 2022. Certain conditions precedent to the closing of the Loan Facilities included the Company entering into Gold Forwards and FX Forwards.

### Loan Facilities - Term Loan

The Term Loan matures on June 30, 2028 and is to be repaid in set quarterly repayment amounts of the outstanding balance commencing on December 31, 2023, with no penalty for voluntary prepayment. The Term Loan bears interest at 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 ("Adjusted Term SOFR") plus 6.0% per annum. Interest is to be accrued based on the timing of the drawdown and is to be paid on the quarterly dates of principal repayment.

The Term Loan is available to the Company in the form of drawdown tranches electable by the Company, subject to the satisfaction of certain drawdown conditions.

During 2022, capitalized interest and associated accretion expense on the Term Loan was \$1.4 million and \$0.1 million, respectively. Interest and accretion is capitalized to the Magino project until such time it is ready for its intended use.

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<sup>1</sup>This is a Non-IFRS Measure; please see "Non-IFRS Measures" section.

As at December 31, 2022, the Company had drawn \$80.0 million under the Term Loan, which resulted in \$120.0 million remaining undrawn, and had unamortized transaction costs allocated to the Term Loan of \$2.4 million.

#### Loan Facilities - Revolving Credit Facility

The Revolving Credit Facility matures on October 27, 2025 and bears interest at 1.25% per annum on the committed but undrawn portions, and a rate on drawn portions equal to the Adjusted Term SOFR plus 6.0% per annum. Interest is to be accrued based on the timing of the drawdown and is to be paid on the quarterly dates of principal repayment of the Term Loan. The entire drawn amount is due on the maturity date of the Revolving Credit Facility. The Revolving Credit Facility is available to the Company, at its election, in the form of drawdown tranches subject to the satisfaction of certain drawdown conditions.

As at December 31, 2022, the Company had not drawn funds on the Revolving Credit Facility, and had unamortized transaction costs allocated to the Revolving Credit Facility of \$1.6 million.

#### *Historical credit facility - ARCF*

Effective October 2020, the Company had a \$125.0 million amended revolving credit facility (“ARCF”), including a \$25.0 million accordion feature, with a syndicate of banks. The ARCF interest rate was determined based on a scale ranging from the London Interbank Offered Rate (“LIBOR”), or an alternative benchmark rate as selected by the administrative agent, 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 secured by certain of the Company’s assets and was subject to various covenants, including those that require the Company to maintain certain tangible net worth and ratios for leverage and interest coverage, and had a commitment reduction date beginning April 30, 2023.

During 2022, capitalized interest expense on the ARCF was \$2.5 million (2021 - \$0.2 million). Interest was capitalized towards the Magino project until such time it is ready for its intended use.

The ARCF was not utilized by the Company until it drew \$80.0 million in December 2021, which remained drawn and outstanding until October 27, 2022 when the ARCF was settled and replaced by the Loan Facilities.

#### *Private placement*

In October 2022, in connection with the sale of the net smelter return royalty on the Magino project to Franco-Nevada, the Company completed a \$10.0 million private placement by issuing 34,693,462 common shares of the Company to Franco-Nevada at a price of CA\$0.39 per common share, for gross proceeds of \$10.0 million. The net proceeds will be used for the development of the Magino project and for general corporate purposes.

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 \$7.9 million (CA\$10.0 million) 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.

#### *Community agreements*

During the year ended December 31, 2022, the Company issued 699,034 common shares (2021 - 809,717 common shares) as part of community agreements associated with the Magino project.

### *Gold forward sales contracts*

In January 2023, the Company entered into a number of Gold Forwards of 10,000 gold ounces per month for a total 30,000 ounces to be settled during the second quarter of 2023, at a fixed gold price of \$1,896 per gold ounce.

In December 2022, the Company entered into Gold Forwards of 10,000 gold ounces per month for a total 30,000 gold ounces to be settled during the first quarter of 2023, at a fixed gold price of \$1,827 per gold ounce.

In October 2022, the Company entered into Gold Forwards totaling 100,000 gold ounces to be settled on a quarterly basis at 10,000 gold ounces per quarter for the 10 quarters starting with the first quarter of 2025, at an average fixed gold price of \$1,763 per gold ounce.

In June 2022, in relation to the commitment by the lender to the Loan Facilities, the Company entered into Gold Forwards totaling 300,000 gold 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 Gold Forwards comprise 150,000 gold ounces to be settled on an average monthly basis of 8,333 gold ounces between July 2023 and December 2024, at an average fixed gold price of \$1,860 per gold ounce. The remaining 150,000 gold ounces are 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.

In March 2022, the Company entered into Gold Forwards of 90,000 ounces at a fixed gold price of \$1,916 per gold ounce to be settled through physical delivery. For the year ended December 31, 2022, the Company recognized \$171.5 million of revenue for the 90,000 ounces of gold delivered during the period under these contracts and settled all of these Gold Forwards early through the Company's production as of December 2022, as allowed under the terms of the contract.

The following table summarizes the Company's Gold Forwards as at February 26, 2023:

Gold Forward Sales Summary			
Year	Total Ounces	Average Contract Price (\$/oz)	Ounces Delivered
2022	90,000	\$1,916	90,000
2023	110,000	\$1,861	14,206
2024	100,000	\$1,860	—
2025	100,000	\$1,812	—
2026	100,000	\$1,812	—
2027	50,000	\$1,812	—

### *Equity offering*

In July 2022, the Company completed 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 \$149.8 million (CA\$195.3 million) 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. Transaction costs related to the Offering were \$8.4 million (CA\$10.5 million), resulting in net proceeds to the Company of \$141.4 million (CA\$184.8 million).

### *Flow-through common shares*

In November 2022, 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, 35,937,500 CDE Flow-Through Shares at CA\$0.48 per share for total gross proceeds of \$12.9 million (CA\$17.3 million). Share issuance costs of \$0.8 million

(CA\$1.1 million) were incurred in relation to the offering, resulting in net proceeds to the Company of \$12.1 million (CA\$16.1 million). 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 \$9.8 million and flow-through share premium of \$2.3 million. During Q4 2022, the Company used \$10.0 million (CA\$13.6 million) to fund development of the Magino project, with the Company required to incur the remainder of the expenditures before May 31, 2023. As at December 31, 2022, the remaining flow-through share premium liability was \$0.5 million (CA\$0.6 million).

In March 2022, the Company closed an offering of CDE flow-through shares (the “CEE 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 \$31.8 million (CA\$40.3 million). Share issuance costs of \$1.7 million (CA\$2.2 million) were incurred in relation to the offering, resulting in net proceeds to the Company of \$30.1 million (CA\$38.1 million). During the year ended December 31, 2022, the Company used all of the proceeds to fund development of the Magino project, achieving the development expenditure requirements and as such at December 31, 2022, the remaining flow-through share premium liability was \$nil.

In March 2022, the Company closed an offering of CEE flow-through shares (the “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 \$9.1 million (CA\$11.5 million). Share issuance costs of \$0.5 million (CA\$0.6 million) were incurred in relation to the offering, resulting in net proceeds to the Company of \$8.6 million (CA\$10.9 million). During the year ended December 31, 2022, the Company used \$8.4 million (CA\$11.2 million) 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 December 31, 2022, the remaining flow-through share premium liability was \$0.1 million (CA\$0.1 million).

#### *Magino project leases and equipment loan*

During the year ended December 31, 2022, the Company entered into a purchase and loan financing agreement for four bulldozers, individual lease agreements for six units of trucks and loaders, and one drill rig to be used at the Magino project. These agreements bear a range of implicit interest rates from 4.5% to 5.95%. At December 31, 2022, the equipment loan agreement had an outstanding balance of \$1.8 million, and the lease agreement had a total liability of \$21.0 million, with \$7.2 million due within the next year.

#### *Florida Canyon mine leases*

During the year ended December 31, 2022, the Company leased an additional loader at the Florida Canyon mine. The value of the new loader put into service was determined to be \$3.5 million.

At December 31, 2022, the Company assessed the valuation of the Florida Canyon mine leases and determined that there was a \$1.3 million (December 31, 2021 - \$1.2 million) 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. As of December 31, 2022, the lease liabilities for the Florida Canyon mine leases total \$30.9 million, with \$12.9 million due within the next year.

#### *Net Smelter Return Royalty*

On October 27, 2022, the Company closed the sale of a 2% net smelter return royalty (referred to as “Royalty Sale”) on the Magino project and surrounding land package to Franco-Nevada for \$52.5 million, which shall be used only for the construction and advancement of the Magino project.

The Company determined the carrying value of the mining properties disposed of as a proportion of the estimated carrying value that has been sold. The Company determined the carrying value of the disposed portion of the Magino project to be \$16.2 million, with \$15.0 million of gross proceeds received allocated to this component, for a loss of \$1.2 million recognized in 2022.

The deferred consideration component has been determined based on a valuation methodology using a 6.0% discount rate and a 5.0% extraction services margin, to signify the value of extraction services being performed over the LOM. The Company determined this deferred consideration to be \$37.5 million.

#### *Assets held for sale*

In December 2022, the Company entered into a definitive agreement with Heliostar to sell the Ana Paula project. The proceeds of the sale of Ana Paula consist of a cash payment of \$10.0 million at closing and an additional \$20.0 million in cash or shares contingent upon several triggers including permitting, feasibility, and a construction decision. To value this transaction, management performed a probability assessment of each contractual provision based upon management's assessment of the likelihood of the action. Some of the provisions are time-based while others are achievement oriented. This probability analysis was the basis for the valuation of fair value of Ana Paula which in turn drove the impairment. Please refer to the "Critical Accounting Estimates" section for details.

## Cash Flows

Expressed in \$000s	Three months ended December 31,		Year ended December 31,	
	2022	2021	2022	2021
<b>Operating activities</b>				
Cash flows from operating activities before changes in non-cash operating working capital and other items	\$ 8,617	\$ 18,330	\$ 70,597	\$ 124,933
Changes in non-cash operating working capital and other items	(6,245)	13,532	(74,346)	5,755
Net cash provided by (used in) operating activities	2,372	31,862	(3,749)	130,688
<b>Investing activities</b>				
Expenditures on mineral properties, plant and equipment	(87,570)	(83,227)	(358,413)	(252,069)
Proceeds from sale of net smelter return royalty	52,500	1,025	52,500	2,250
Receipt of receivables from acquisition	—	669	—	7,675
Reclamation deposits refunded	—	5,664	—	5,664
Proceeds from sale of marketable securities, net of transaction costs	—	—	5,307	—
Proceeds from disposal of equipment	489	597	2,620	839
Net cash used in investing activities	(34,581)	(75,272)	(297,986)	(235,641)
<b>Financing activities</b>				
Proceeds from issuance of common shares	10,000	—	159,795	7,917
Proceeds from issuance of flow-through shares	12,921	—	53,858	22,229
Share issuance costs	(858)	—	(11,440)	(1,368)
Proceeds from debt, net of issuance costs	77,469	80,000	77,469	80,000
Debt repayments	(80,042)	—	(80,087)	—
Principal element of lease payments	(4,798)	(4,214)	(17,184)	(13,887)
Payments on settlement of derivatives	—	(835)	(2,233)	(4,232)
Interest paid	(4,914)	(1,969)	(10,234)	(5,638)
Other	(595)	—	203	668
Net cash provided by financing activities	9,183	72,982	170,147	85,689
Effects of exchange rate changes on cash and cash equivalents	8,552	1,979	7,074	4,236
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(14,474)</b>	<b>31,551</b>	<b>(124,514)</b>	<b>(15,028)</b>
Cash and cash equivalents, beginning of period	89,195	167,609	199,235	214,188
Cash (classified) declassified as assets	(1,467)	75	(1,467)	75
<b>Cash and cash equivalents, end of period</b>	<b>\$ 73,254</b>	<b>\$ 199,235</b>	<b>\$ 73,254</b>	<b>\$ 199,235</b>

### For the three months ended December 31, 2022 and 2021

During Q4 2022, cash decreased by \$14.5 million primarily due to \$87.6 million of capital expenditures incurred and \$11.6 million of cash outflow to vendors, offset by \$52.5 million of proceeds from the Royalty Sale and \$12.9 million of proceeds from flow-through shares issued, as compared to Q4 2021 in which cash increased by \$31.6 million primarily due to \$73.0 million of cash flows provided by financing activities and \$31.9 million of cash flows provided by operations, offset by \$83.2 million of capital expenditures incurred.

Cash provided by operating activities totaled \$2.4 million in Q4 2022, compared to \$31.9 million in Q4 2021. The decrease in cash provided by operations of \$29.5 million was primarily related to a \$9.7 million decrease in cash flows from operating activities before changes in non-cash operating working capital and \$19.8 million decrease of cash provided by non-cash operating working capital and other items. The \$9.7 million decrease in cash flows from operating activities before changes in non-cash operating working capital was primarily due to a decrease in gold ounces sold at each of the Company's mines in Q4 2022 compared to Q4 2021, partially offset by a higher average



realized gold price. The \$19.8 million decrease in cash provided by changes in non-cash operating working capital and other items was mostly related to a \$26.7 million decrease in accounts payable and accrued liabilities, a \$13.1 million decrease in income taxes payable, a \$10.9 million increase in accounts receivable, and an \$8.9 million increase in inventories in Q4 2022 compared to Q4 2021.

Cash used in investing activities totaled \$34.6 million in Q4 2022, compared to \$75.3 million in Q4 2021. The cash used in investing activities in Q4 2022 primarily related to capital expenditures including \$80.3 million for construction of the Magino project, \$4.9 million for capitalized stripping at the La Colorada and Florida Canyon mines, and \$2.6 million for exploration and development activities, offset by cash provided by investing activities of \$52.5 million from the Royalty Sale. The cash used in investing activities in Q4 2021 totaled \$75.3 million, primarily related to capital expenditures of \$61.8 million for construction of the Magino project, \$14.1 million for exploration and development activities, \$4.0 million for capitalized stripping at the El Castillo and La Colorada mines, \$2.8 million for mining equipment and crushing, and \$0.3 million for other capital expenditures at the Company's properties. The cash provided by investing activities in Q4 2021 also includes \$5.7 million of reclamation deposits refunded.

Cash provided by financing activities totaled \$9.2 million in Q4 2022, compared to \$73.0 million in Q4 2021. During Q4 2022, cash provided by financing activities primarily relates to net proceeds from the term loan of \$77.5 million, proceeds of \$12.9 million from issuance of flow-through shares, and equity offering of \$10.0 million, offset by debt repayment of \$80.0 million related to the ARCF, interest payments of \$4.9 million, and principal payments on lease liabilities of \$4.8 million. During Q4 2021, the Company received proceeds of \$80.0 million related to the drawdown of the ARCF, offset by principal payments on lease liabilities of \$4.2 million, interest payments of \$2.0 million, and derivative settlement payments of \$0.8 million.

***For the year ended ended December 31, 2022 and 2021***

During 2022, cash decreased by \$124.5 million mostly due to \$298.0 million of cash used in investing activities primarily related to capital expenditures incurred and \$3.7 million of cash used in operating activities, offset by \$170.1 million of cash flows from financing activities and \$7.1 million due to the change in the foreign exchange rate, compared to 2021 in which cash decreased by \$15.0 million primarily due to \$252.1 million of capital expenditures incurred, offset by \$130.7 million of cash flow from operations, \$85.7 million of cash flows from financing activities, and \$4.2 million due to foreign exchange rate fluctuations.

Cash used in operating activities totaled \$3.7 million in 2022, compared to cash provided by operating activities of \$130.7 million in 2021. The decrease in cash provided by operations was primarily related to a \$80.1 million decrease from non-cash operating working capital and other items and a \$54.3 million decrease in cash flows from operating activities before changes in non-cash operating working capital and other items. The \$80.1 million decrease in changes in non-cash operating working capital and other items was primarily due to a \$28.6 million decrease in income taxes payable, a \$26.6 million decrease in accounts payable, a \$19.8 million increase in income taxes paid, a \$6.7 million increase in reclamation paid, a \$4.9 million increase in prepaid expenses and deposits, offset by a \$4.9 increase in receivables and a \$3.1 million increase in inventories. The \$54.3 million decrease in cash flows from operating activities before changes in non-cash operating working capital and other items was mostly related to a decrease in ounces sold at each of the Company's mines.

Cash used in investing activities totaled \$298.0 million in 2022, compared to \$235.6 million in 2021. The cash used in investing activities in 2022 relates to capital expenditures including \$306.4 million for construction of the Magino project, \$23.5 million for capitalized stripping at the El Castillo, La Colorada, and Florida Canyon mines, \$17.4 million for exploration and development activities, \$5.5 million for crushing, conveying and mining equipment, and \$5.0 million for leach pad construction. Cash provided by investing activities in 2022 includes \$52.5 million from the Royalty Sale, \$5.3 million from sale of marketable securities, and \$2.6 million from equipment disposals. The cash used in investing activities in 2021 mostly related to capital expenditures including \$191.9 million for construction of the Magino project, \$26.5 million for exploration and development activities, \$13.6 million for crushing and conveying, circuit improvements, and mining equipment, \$12.5 million for capitalized stripping at the El Castillo and La Colorada mines, \$5.1 million for leach pad construction, and \$2.4 million for capital expenditures at the Company's other properties. Cash provided by investing activities in 2021 includes \$7.7 million receipt of

receivables from the acquisition of Alio, \$5.7 million of reclamation deposits refunded, and \$2.3 million of proceeds from the sale of a net smelter return royalty on the La Fortuna property in 2016.

Cash provided by financing activities totaled \$170.1 million in 2022, compared to \$85.7 million in 2021. The increase in cash primarily related to \$159.8 million received from the Offering, \$77.5 million from the Term Loan, and \$53.9 million from the issuance of flow-through common shares, partially offset by ARCF repayment of \$80.1 million, principal payments on lease liabilities of \$17.2 million, interest payments of \$10.2 million, and derivative settlement payments of \$2.2 million. During 2021, the Company received \$80.0 million from the ARCF, \$22.2 million from the issuance of flow-through common shares and net proceeds of \$7.9 million from a private placement with Ausenco, offset by principal payments on lease liabilities of \$13.9 million, interest payments of \$5.6 million, and derivative settlement payments of \$4.2 million.

Total assets decreased to \$1,259.4 million as at December 31, 2022, a decrease of 1% compared to \$1,269.3 million as at December 31, 2021, primarily due to a \$126.0 million decrease in cash and cash equivalents, offset by a \$116.1 million increase in mineral properties, plant and equipment, a \$8.1 million increase in income tax prepaid, and a \$6.3 million decrease in receivables. Total liabilities decreased to \$423.1 million as at December 31, 2022 compared to \$437.7 million as at December 31, 2021, a decrease of 3% primarily due to a \$26.5 million decrease in income taxes payable, a \$10.1 million decrease in accounts payable and accrued liabilities, an \$8.7 million decrease in long-term debt, a \$7.4 decrease in the long term portion of reclamation liabilities, a \$3.0 million decrease in deferred income tax liabilities, and a \$2.4 million decrease in lease liabilities, offset by a \$37.5 million increase from the royalty deferral. Total shareholders' equity increased to \$836.3 million as at December 31, 2022, a decrease of 1% compared to \$831.6 million as at December 31, 2021, primarily due to a \$197.6 million increase in shares issued, offset by a net loss of \$152.2 million and a \$41.8 million increase in foreign currency translation losses. The foreign currency translation effects were primarily due to the weakening of the Canadian dollar against the US dollar during 2022.

## **LIQUIDITY OUTLOOK**

With the completion of the Loan Facilities and anticipated availability to affect further draw downs, the net smelter return royalty sale, the flow-through financings, and a private placement in 2022, the Company's cash and cash equivalents balance, and the cash expected to be received from the anticipated sale of the Ana Paula project, the Company anticipates that it will have sufficient funds to meet its obligations and the planned investing and operating activities of the Company for the next 12 months, including the estimated increase in the cost to complete Magino. This is in addition to the cash expected to be generated from the commissioning and commercial production anticipated in the third quarter 2023 at Magino, and the expected cash flows to be generated from the Company's four operating mines during the next 12 months.

Argonaut met its 2022 GEO production guidance and adjusted cost guidance as outlined above, exclusive of the non-cash inventory write-down to net realizable value at El Castillo, Florida Canyon, San Agustin, and La Colorada. The 2023 guidance reflects the wind down of the Mexican operations and the ramp up of the Company's newest gold mine, Magino.

## CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following table summarizes the Company's payments for contractual obligations and commitments as at December 31, 2022:

Expressed in \$000s	2023	2024	2025	2026	2027	Thereafter	Total
Accounts payable and accrued liabilities	\$ 94,291	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 94,291
Lease obligations	20,534	19,644	11,770	4,347	32	211	56,538
Land agreement obligations <sup>1, 3</sup>	1,378	1,420	1,465	926	790	5,978	11,957
Purchase obligations <sup>2, 3</sup>	198,131	14,993	14,250	9,417	296	–	237,087
Debt <sup>4</sup>	5,182	14,367	16,384	80,282	19,072	4,000	139,287
Reclamation provision <sup>5</sup>	29,079	9,238	4,151	4,175	7,758	75,701	130,102
	\$348,595	\$ 59,662	\$ 48,020	\$ 99,147	\$ 27,948	\$ 85,890	\$669,262

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

<sup>2</sup>The Company has commitments totaling \$133.4 million for the Magino project, \$33.9 million for mining services, \$65.6 million for supplies, \$3.6 million for flow-through expenditures and \$0.6 million for other services.

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

<sup>4</sup>Debt represents the Loan Facilities and convertible debentures.

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

## CONTINGENT LIABILITIES

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 Company's consolidated financial statements on the date such changes occur.

The Company is required to incur expenses and renounce all qualified CDE and CEE in relation to its CDE Flow-Through Shares and CEE Flow-Through Shares in favor of the subscribers. The Company renounces all expenditures to flow-through shareholders at the end of the year in which the shares are issued. As at December 31, 2022, the remaining qualified CDE to be incurred by December 31, 2022 was \$2.9 million and the remaining qualified CEE to be incurred by December 31, 2022 and December 31, 2023 was \$nil and \$0.7 million, respectively.

Alio Gold Inc., a wholly-owned subsidiary of the Company, 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.

## **IMPACT OF KEY ECONOMIC TRENDS**

The Company cautions that due to the economic and geopolitical concerns as a result of the invasion of Ukraine by Russia, rising interest rates, and a strengthening trade-weighted US dollar, the Company's production and cash cost estimates are subjected to a higher than normal degree of volatility. Consequently, the ultimate impact on our cost profile is difficult to predict. The guidance discussed above does not reflect any potential for additional suspensions or other significant disruption to operations due to global events.

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

The Company's financial performance, including its profitability and cash flow from operations, is tied to the price of gold and the cost of inputs to its gold production. The price of gold itself is the greatest factor in profitability and cash flow from operations and should be expected to continue to be impacted by market factors. The price of gold is volatile and subject to price movements that can take place over short periods of time and are affected by multiple macroeconomic and industry factors that are beyond the control of the Company. Some of the major recent factors influencing the price of gold include currency exchange rates, the relative value of the US dollar, supply and demand for gold, and more general economic results and projections such as interest rate and inflation projections and assumptions. In addition, the Company is exposed to supply chain issues, including inflationary pressures in certain inputs to its exploration, development, and operating activities. This is of particular impact upon its construction and completion of the Magino project.

## **FINANCIAL INSTRUMENTS AND RISKS**

### **Overview**

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

In addition to global inflationary pressures on operating costs, the Company continues to experience risks associated with volatility in foreign exchange rates. The Company has implemented a foreign exchange forward contracts program for Canadian dollars to mitigate the impact of volatility in the Canadian-dollar to United States dollar exchange rate. The Company continues to monitor each of these risks and will execute timely and appropriate measures as necessary. Further, near term metal prices, exchange rates, discount rates, and other key assumptions used in the Company's accounting estimates are subject to greater uncertainty given the current economic environment. Changes in these assumptions could significantly impact the Company's accounting estimates.

The Company continues to experience risks associated with global inflation and volatility in foreign exchange rates. The Company has implemented a foreign exchange forward contracts program for Canadian dollars to mitigate the impact and continues to monitor these risks. Further, near term metal prices, exchange rates, discount rates, and other key assumptions used in the Company's accounting estimates are subject to greater uncertainty given the current economic environment. Changes in these assumptions could significantly impact the Company's accounting estimates.

Readers are encouraged to read and consider the “Cautionary Statement” section of this MD&A and the “Risk Factors” described in the Company’s Annual Information Form for the year ended December 31, 2021. The risk factors could materially impact future operating results of the Company and cause events to differ materially from those described in forward-looking information of the Company.

## **Financial instruments**

As at December 31, 2022 and December 31, 2021, the carrying amounts of cash and cash equivalents, trade and other receivables, and accounts payable and accrued liabilities are considered to be reasonable approximations of their fair values due to the short-term nature of these instruments. As at December 31, 2022 and December 31, 2021, 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. As at December 31, 2022, the fair value of the Debentures was \$46.6 million (December 31, 2021 - \$58.6 million).

### *Credit risk*

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

### *Market price risk*

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

If equity prices for these marketable securities had increased or decreased by 5.0% as at December 31, 2022, with all other variables held constant, the Company’s marketable securities would have increased or decreased, respectively, by approximately \$nil (2021 - \$0.3 million). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

### *Loan Facilities risk*

The Company's Loan Facilities contains financial, operational, and reporting covenants. Compliance with any such covenants may increase the Company's administrative, legal and financial costs, make some activities more difficult, time-consuming or costly, increase demand on the Company's systems and resources, and result in a failure to satisfy applicable drawdown conditions.

The failure of the Company to comply with restrictions and covenants under its indebtedness, which may be affected by events beyond the Company's control, could result in a default under such indebtedness, which could result in acceleration of repayment of amounts due thereunder, the Company being required to repay amounts owing earlier than anticipated, and/or the Company being unable to satisfy applicable drawdown conditions. If repayment of the Company's indebtedness is accelerated, or future draw-downs are unable to be made, the Company may not be able to repay its indebtedness or borrow sufficient funds to refinance it, and any such repayment or refinancing could adversely affect the Company's financial condition. Even if the Company is able to obtain new financing, it may not be on commercially reasonable terms or terms that are acceptable to the Company.

It is not unusual in new mining operations to experience unexpected problems and delays during the construction and development of a mine. In addition, delays in the commencement or expansion of mineral production often occur and, once commenced or expanded, the production of a mine may not meet expectations or estimates set forth in feasibility or other studies. Any of the foregoing factors could adversely impact the Company's ability to repay amounts owing. If the Company is unable to repay amounts owing, the lenders under its indebtedness could proceed to realize upon the security, as applicable, granted to them to secure the indebtedness. The Loan Facilities are secured by substantially all of the Company's assets, a realization by the lenders thereunder of any or all of the security would have a material adverse effect on the Company's business, financial condition, results of operations, cash flows and prospects, and may result in a substantial reduction or elimination entirely of assets available for distribution to equity holders on a dissolution or wind-up of the Company. The acceleration of repayment of the Company's indebtedness under one agreement may permit acceleration of repayment of indebtedness under other agreements that contain cross default or cross-acceleration provisions. Even if the Company is able to comply with all applicable covenants, restrictions on its ability to manage its business in its sole discretion could adversely affect its business by, among other things, limiting its ability to take advantage of financings, mergers, acquisitions, and other corporate opportunities that the Company believes may be beneficial to it.

#### *Foreign exchange risk*

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

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

<b>Expressed in \$000s</b>	US dollar value of Canadian dollar balances		US dollar value of Mexican peso balances	
	2022	2021	2022	2021
Cash and cash equivalents	\$ 22,002	\$ 37,142	\$ 2,682	\$ 1,543
Marketable securities	80	6,049	—	—
Other receivables	66	1	38	279
Accounts payable and accrued liabilities	(47,320)	(39,587)	(17,425)	(23,017)
Other liabilities	—	—	(3,076)	(1,052)
	\$ (25,172)	\$ 3,605	\$ (17,781)	\$ (22,247)

Based on the above net exposures as at December 31, 2022, a 10.0% appreciation in the Canadian dollar would result in a \$2.5 million decrease in the Company's other comprehensive income for the year ended December 31, 2022 (December 31, 2021 - \$0.4 million increase in other comprehensive income). A 10.0% appreciation in the Mexican peso would result in a \$1.8 million decrease in the Company's income before income taxes for 2022 (2021 - \$2.2 million).

### *Currency derivative contracts - foreign exchange forwards*

In October 2022, the Company entered into FX Forwards to protect the Company's exposure to foreign exchange fluctuations between the Canadian and US dollars. The contracts were priced at an average rate of 1.34 Canadian dollars per US dollar for the next 24 months. This agreement was a condition precedent of the Loan Facilities.

The details of the Company's FX Forwards are as follows:

Anticipated settlement date	US\$ in millions	Settlement rate	CA\$ in millions	Status
November 2022 - December 2022	\$ 38.0	\$ 1.345	51.1	Settled
January 2023	\$ 56.0	\$ 1.350	75.7	Settled
February 2023 - December 2023	\$ 129.0	\$ 1.335	172.3	Open
January 2024 - December 2024	\$ 118.8	\$ 1.324	157.3	Open
	\$ 341.8		\$ 456.4	

The fair value of the FX Forwards at December 31, 2022 was \$4.6 million. The fair values of the FX Forwards have been recognized, on a net basis, in derivative liabilities. These derivative instruments were not designated as hedges by the Company and were fair valued at the end of each reporting period. The FX Forwards were valued as the difference between the committed exchange price and the spot exchange rate at the end of each reporting period.

During 2022, realized and unrealized foreign exchange losses of \$0.6 million and \$4.6 million, respectively were recognized related to the FX Forwards.

### *Liquidity risk*

The Company manages liquidity risk by maintaining adequate cash and cash equivalent balances and credit facilities. The Company continuously monitors and reviews both actual and forecasted cash flows, and matches the maturity profile of financial assets and liabilities. As at December 31, 2022, the Company had a cash balance of \$73.3 million (December 31, 2021 - \$199.2 million), an undrawn balance of the Loan Facilities of \$170.0 million (December 31, 2021 - \$nil), other current assets of \$158.7 million (December 31, 2021 - \$147.1 million) and current liabilities of \$144.4 million (December 31, 2021 \$169.8 million).

### *Interest rate risk*

Interest rate risk is the risk that the fair values and future cash flows of the financial instruments will fluctuate because of changes in market interest rates. The Company has interest bearing cash balances, which are subject to fluctuations in the interest rate. A 10.0% increase or decrease in the interest earned from financial institutions on deposits held would result in a nominal increase or decrease in the Company's income (loss) before income taxes in the consolidated statements of (loss) income. The Company has additional exposure to interest rate risk on the Loan Facilities, which are subject to a floating interest rate. Floating interest rates are based on the Adjusted Term SOFR plus a fixed margin. Based on the spread between the high and the low of the Adjusted Term SOFR rate during 2022, in which there was a 50.0% fluctuation, a relatively similar rate change would result in a nominal increase or decrease in interest expense in the consolidated statements of (loss) income. The Company does not enter into derivative contracts to manage this risk. The Company has utilized \$80.0 million of the Loan Facilities as at December 31, 2022.

### *Commodity price risk*

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

### *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. Payments for the settlement of the derivatives were finalized in July 2022.

The details of the Company’s commodity contracts are as follows:

Commodity contracts at inception	Status	Quantity <sup>2</sup> (oz)	Term	Strike price per oz <sup>1,2</sup>
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

<sup>1</sup> 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.

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

The fair value of the Gold Collars at December 31, 2022 was \$nil. Previously the fair values of the Gold Collars had been recognized, on a net basis, as derivative liabilities. These derivative instruments were not designated as hedges by the Company and were fair valued at the end of each reporting period. The Gold Collars were valued using a Levy two moment valuation model which used quoted observable inputs.

During the year ended December 31, 2022, an unrealized loss of \$1.3 million, (year ended December 31, 2021 - reversal of prior period unrealized loss - \$16.4 million) was recognized on the fair value of the Gold Collars. During the year ended December 31, 2022, a realized loss on the Gold Collars of \$2.0 million (December 31, 2021 - \$3.8 million) was recognized.

### **OUTSTANDING SHARE DATA**

	As at December 31, 2022	As at February 26, 2023
Common Shares	838,176,252	838,176,252
Stock Options	2,587,517	2,551,331
Alio Replacement Options	101,114	101,114
Restricted Share Units	2,792,512	2,555,707
Performance Share Units	1,939,935	1,586,356
Deferred Share Units	563,960	563,960

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

### **CRITICAL ACCOUNTING ESTIMATES**

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may vary from those estimates due to inherent uncertainty or other factors. The Company regularly reviews its estimates. Revisions to estimates and the resulting effects on the carrying amounts of the assets and liabilities are accounted for



prospectively. Key sources of estimation uncertainty that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

### **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 ongoing recovery of gold ounces from the leach pads and may refine its estimates based on these results. Assumptions used in the net realizable value assessment include the estimated gold price at the time of sale, remaining costs of completion to bring inventory into its saleable form and discount rate. Changes in these estimates can result in a change in the carrying amount of inventories and future cost of sales.

### **Mineral properties**

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

### **2022 Impairment**

During the year ended December 31, 2022, management of the Company completed an assessment of impairment indicators for each of the Company's cash-generating unit ("CGU" or "CGUs"), as noted below, as well as took into consideration that the Company's market capitalization continued to be below the carrying value of net assets. As a result of this assessment, management identified impairment indicators for the La Colorada mine, the Florida Canyon mine, the San Agustin mine, the El Castillo mine, the Magino project and the Ana Paula project CGUs. Accordingly, the Company estimated the recoverable amounts of these CGUs and compared them to the carrying values of the CGUs. The recoverable amount was determined as the fair value less direct costs of disposal ("FVLCD") for each CGU. The FVLCD was determined using a discounted future cash-flow model for each CGU. For the Ana Paula project, management used initial consideration and management's best estimate of the likelihood of the additional consideration that is contingent upon several triggers including permitting, feasibility and a construction decision, in addition to macroeconomic, country, and asset specific risk factors. For the Magino project, management used a discounted future cash-flow model and an in-situ value of its mineral reserves and resources for the determination of the FVLCD.

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

- For the El Castillo mine's CGU, the early end of mining operations was identified as an impairment indicator. As a result of the Company's impairment assessment, mineral properties, and plant and equipment were written down by \$6.7 million to its recoverable value of \$nil, which was determined based on the FVLCD.

- For the Florida Canyon mine's CGU, an increase in expected operating costs and reduction in metallurgical recovery estimates were identified as impairment indicators. As a result of the Company's impairment assessment, mineral properties, and plant and equipment were written down by \$48.1 million (2021 - \$57.5 million) to its recoverable value of \$54.0 million, which was determined based on the FVLCD. The FVLCD was determined using a discounted cash flow model and the in-situ fair value per ounce of gold equivalent mineral reserves and resources that were not already considered in the discounted cash flow model based on sale transactions of comparable assets.
- For the San Agustin mine's CGU, the inability to obtain required permits, an increase in expected operating costs and an updated mine plan resulting in an increased strip ratio were identified as impairment indicators. As a result of the Company's impairment assessment, mineral properties, and plant and equipment were written down by \$43.0 million to its recoverable value of \$6.6 million, which was determined based on the FVLCD.
- For the La Colorada mine's CGU, the inability to obtain required permits and an increase in expected operating costs were identified as impairment indicators. As a result of the Company's impairment assessment, mineral properties and plant and equipment were written down by \$27.3 million to its recoverable value of \$29.3 million, which was determined based on the FVLCD.
- For the Magino project's CGU, an increase in budgeted capital costs and an increase in the estimated operating costs were identified as impairment indicators. After a review of the impacts of cost increases, inflation, adjustments to the development plans and contingencies, and the updated capital costs to completion, it was determined there was no impairment to the Magino project as at December 31, 2022. The FVLCD was determined using a discounted cash flow model and the in-situ fair value per ounce of gold equivalent mineral reserves and resources that were not already considered in the discounted cash flow model based on sale transactions of comparable assets.
- Upon reclassification of the Ana Paula project to a disposal group in the fourth quarter of 2022, the Company assessed the Ana Paula project for impairment as at December 31, 2022. For the Ana Paula project, management used initial consideration and management's best estimate of the likelihood of the additional consideration that is contingent upon several triggers including permitting, feasibility and a construction decision, in addition to macroeconomic, country, and counterparty specific risk factors. The Company assessed the recoverable amount for the non-current assets including the exploration and evaluation assets of the Ana Paula project, and determined a recoverable value based on the FVLCD of the Ana Paula project of \$13.3 million, which was lower than the carrying value of the CGU. Accordingly, an impairment of \$10.4 million (2021 - \$7.3 million) was recognized.

#### *Impairment testing: 2022 Key assumptions*

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

The determination of FVLCD includes the following key assumptions:

- Long term and short term gold price per ounce of \$1,650 and \$1,730, respectively;
- Exchange rates: \$1.35 Canadian dollars per US dollar and \$20.00 Mexican pesos per US dollar;
- Expected future operating and capital costs based on budgeted and LOM costs;
- Future production volume and metallurgical recovery estimates as indicated in the LOM plans;

- In-situ value per ounce of gold equivalent mineral reserves and resources for the Magino project of \$76 per ounce, and for the Florida Canyon mine of \$38 per ounce; and
- Real after-tax discount rate: 5.0% for the El Castillo, San Agustin, and Florida Canyon CGUs, 6.0% for the Magino project CGU, and 7.0% for the La Colorada CGU.

### *Sensitivity analyses 2022*

The Company has performed sensitivity analyses on the CGUs where an impairment was recorded. The Company assumed a 5.0% change in the long term gold price assumption, a 5.0% change in the operating cost assumption, and change in the discount rate from 5.0% to 6.0% for the El Castillo mine, San Agustin mine, and Florida Canyon mine; and from 7.0% to 8.0% for the La Colorada mine, while holding all other assumptions constant. Based on the impairment testing performed as at December 31, 2022, the sensitivity to changes in these key assumptions appear below for the Company's mines:

<b>Expressed in \$000s</b>	Change in recoverable amount from a 5% change in short term gold price	Change in recoverable amount from a 5% change in operating costs	Change in recoverable amount from a 1% change in the discount rate
El Castillo mine	\$ –	\$ –	\$ 92
San Agustin mine	\$ 1,833	\$ 2,992	\$ 3
La Colorada mine	\$ 14,779	\$ 5,866	\$ 1,510
Florida Canyon mine	\$ 5,127	\$ 5,818	\$ 1,275

The table below indicates the gold price per ounce, the discount rate, the construction capital, the in-situ value per ounce, and the percentage change in operating costs assumption which would cause the carrying 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 <sup>1</sup>	Percentage change in operating costs required for recoverable amount to equal carrying amount	In-situ value per ounce required for recoverable amount to equal carrying amount
Magino project	\$ 1,501	8.62%	\$ 866,764	13.75%	\$ 23

<sup>1</sup>The construction capital required for recoverable amount to equal carrying amount is \$0.9 million or CA\$1.2 million at an exchange rate of \$0.74 per CA\$1.00.

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

Additionally, although not a CGU, the Ana Paula project was also assessed for impairment due to the planned disposition. The impairment valuation was based upon initial consideration and management's best estimate of the likelihood of the additional consideration that is contingent upon several triggers including permitting, feasibility and a construction decision, in addition to macroeconomic, country, and counterparty specific risk factors. The total impairment was \$10.4 million.

### **Deferred income taxes**

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

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

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

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

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

### **Reclamation provision**

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

### **Contingencies**

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

### **Deferred extraction obligation**

When the Company sells a partial interest in a mineral property to a party that is not a customer and the transaction includes an associated extraction obligation such as for a royalty or a stream, the Company allocates the proceeds based on its estimate of the value associated with the extraction obligation, with the residual allocated to the sale of the mineral property interest. In doing so, management makes estimates and assumptions with respect to the present value of future extraction costs consistent with assumptions in the determination of the recoverable value of mineral properties. This depends on estimates of recoverable reserves and resources, metallurgical recovery estimates, future production volumes, future metal prices, future extraction costs, and discount rates. On an ongoing basis, the Company will update the unrecognized balance based on changes to the estimated quantity and timing of future production. These estimates are subject to variability and have an impact on the timing and amount of revenue recognized.

## ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS

### *New and amended standards - applicable January 1, 2022*

The Company has applied the following amendments for the first time for their annual reporting period commencing January 1, 2022:

- Amendments to IAS 16 - *Property, Plant and Equipment: Proceeds before Intended Use*;
- Amendments to IAS 37 - *Onerous Contracts – Cost of Fulfilling a Contract*;
- Annual Improvements to IFRS Standards 2018-2020, and
- Reference to the Conceptual Framework – Amendments to IFRS 3 - *Business Combinations*.

The amendments listed above did not have any impact on the amounts recognized in prior and current periods, and are not currently expected to significantly affect future periods.

### *New and amended standards not yet adopted*

In October 2020, the IASB published amendments to IAS 1 - *Presentation of Financial Statements - Classification of debt with covenants as current or non-current*. Under existing IAS 1 requirements, companies classify a liability as current when they do not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. As part of its amendments, the IASB has removed the requirement for a right to be unconditional and instead, now requires that a right to defer settlement must have substance and exist at the end of the reporting period. A company classifies a liability as non-current if it has a right to defer settlement for at least 12-months after the reporting period. This new requirement may change how companies classify their debt. The amendments clarify how a company classifies a liability that includes a counterparty conversion option, which could be recognized as either equity or a liability separately from the liability component under IAS 32 - *Financial Instruments Presentation*. Generally, if a liability has any conversion options that involve a transfer of the company's own equity instruments, these would affect its classification as current or non-current. The IASB has now clarified that when classifying liabilities as current or non-current, a company can ignore only those conversion options that are recognized 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 IASB published amendments to IAS 12 - *Income Taxes*. The amendments will require companies to recognize deferred tax on particular transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The proposed amendments will typically apply to transactions such as leases for the lessee and decommissioning and restoration obligations related to assets in operation. The effective date is for annual periods beginning on or after January 1, 2023, with early adoption permissible. The Company is assessing the effect of the amendments on its consolidated financial statements.

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.

## DISCLOSURE CONTROLS AND PROCEDURES

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

## INTERNAL CONTROL OVER FINANCIAL REPORTING

NI 52-109 also requires public companies in Canada to submit interim and annual certificates relating to the design of internal control over financial reporting (“ICFR”) and an annual certificate that includes evaluating the effectiveness of ICFR. The Company’s ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management is responsible for establishing and maintaining ICFR. The Company used the 2013 Commission of Sponsoring Organizations of the Treadway Commission (“COSO”) framework as the basis for designing its ICFR. Due to its inherent limitations, ICFR may not prevent or detect misstatements on a timely basis as such systems can only be designed to provide reasonable as opposed to absolute assurance. Also, projections of any evaluation of the effectiveness of ICFR to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. There have been no significant changes in the Company’s internal controls during the year ended December 31, 2022 that have materially affected, or are reasonably likely to materially affect, ICFR. The individuals performing the duties of the Company’s Chief Executive Officer and the Chief Financial Officer have each evaluated the effectiveness of the Company’s ICFR as at December 31, 2022 and have concluded that these controls and procedures are effective.

## OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

## NON-IFRS MEASURES

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

1. The following tables provide reconciliations of production costs per the financial statements to cost of sales per gold ounce sold and cash cost per gold ounce sold for each mine:

El Castillo Mine		Three months ended December 31,		Year ended December 31,	
		2022	2021	2022	2021
Production costs, as reported	\$000s	19,158	12,207	64,454	54,074
Inventory impairment	\$000s	15,746	—	15,746	—
Less silver sales	\$000s	102	244	817	1,578
Net cost of sales	\$000s	34,802	11,963	79,383	52,496
Gold ounces sold	oz	11,421	11,066	42,886	47,755
Cost of sales per gold ounce sold	\$/oz	3,557	1,536	2,328	1,530
Cash cost per gold ounce sold	\$/oz	3,047	1,081	1,851	1,099

San Agustin Mine		Three months ended December 31,		Year ended December 31,	
		2022	2021	2022	2021
Production costs, as reported	\$000s	25,978	19,043	82,631	75,397
Inventory impairment	\$000s	1,558	—	1,558	—
Less silver sales	\$000s	1,206	2,434	7,568	12,445
Net cost of sales	\$000s	26,330	16,609	76,621	62,952
Gold ounces sold	oz	17,719	15,672	65,844	68,778
Cost of sales per gold ounce sold	\$/oz	1,907	1,525	1,615	1,393
Cash cost per gold ounce sold	\$/oz	1,486	1,060	1,164	915

La Colorada Mine		Three months ended December 31,		Year ended December 31,	
		2022	2021	2022	2021
Production costs, as reported	\$000s	11,331	14,611	48,422	49,836
Inventory impairment	\$000s	772	—	772	—
Less silver sales	\$000s	247	864	2,486	4,225
Net cost of sales	\$000s	11,856	13,747	46,708	45,611
Gold ounces sold	oz	7,487	15,825	42,349	62,486
Cost of sales per gold ounce sold	\$/oz	1,851	1,232	1,395	1,117
Cash cost per gold ounce sold	\$/oz	1,584	869	1,103	730

Florida Canyon Mine		Three months ended December 31,		Year ended December 31,	
		2022	2021	2022	2021
Production costs, as reported	\$000s	23,855	22,417	82,786	74,443
Inventory impairment	\$000s	4,800	—	4,800	—
Less silver sales	\$000s	194	190	694	798
Net cost of sales	\$000s	28,461	22,227	86,892	73,645
Gold ounces sold	oz	13,979	12,531	49,616	54,330
Cost of sales per gold ounce sold	\$/oz	2,295	2,011	2,001	1,594
Cash cost per gold ounce sold	\$/oz	2,036	1,774	1,751	1,356

All Mines		Three months ended December 31,		Year ended December 31,	
		2022	2021	2022	2021
Production costs, as reported	\$000s	80,322	68,278	278,293	253,750
Inventory impairment	\$000s	22,876	—	22,876	—
Less silver sales	\$000s	1,749	3,732	11,565	19,046
Net cost of sales	\$000s	101,449	64,546	289,604	234,704
Gold ounces sold	oz	50,606	55,094	200,695	233,349
Cost of sales per gold ounce sold	\$/oz	2,378	1,544	1,816	1,382
Cash cost per gold ounce sold	\$/oz	2,005	1,172	1,443	1,006

- AISC includes net cost of sales at the Company's mining operations, which forms the basis of the Company's cash cost per gold ounce sold. Additionally, the Company includes general and administrative, exploration,

accretion and other expenses, and sustaining capital expenditures. Sustaining capital expenditures exclude all expenditures at the Company's pre-production, development stage, and advanced exploration stage projects and certain expenditures at the Company's operating sites that are deemed expansionary in nature.

The following table provides a reconciliation of AISC per gold ounce sold to the consolidated financial statements:

		Three months ended December 31,		Year ended December 31,	
		2022	2021	2022	2021
Net cost of sales	\$000s	101,449	64,546	289,604	234,704
General and administrative expenses	\$000s	5,113	5,411	18,226	18,130
Exploration expenses	\$000s	(2,094)	1,063	1,403	4,315
Accretion and other expenses	\$000s	3,398	3,121	13,496	11,455
Sustaining capital expenditures	\$000s	6,825	9,271	31,406	37,276
AISC	\$000s	114,691	83,412	354,135	305,880
Gold ounces sold	oz	50,606	55,094	200,695	233,349
AISC per gold ounce sold	\$/oz	2,266	1,514	1,765	1,311

3. Adjusted net (loss) income and adjusted (loss) earnings per share - basic exclude a number of temporary or one-time items described in the following table, which provides a reconciliation of adjusted net (loss) income to the consolidated financial statements:

		Three months ended December 31,		Year ended December 31,	
		2022	2021	2022	2021
Net (loss) income, as reported	\$000s	(174,937)	(37,252)	(152,202)	26,529
Unrealized loss (gain) on derivatives	\$000s	5,035	(3,776)	(7,165)	(21,015)
Other non-operating income, net of tax	\$000s	(3,849)	(511)	(534)	(2,432)
Foreign exchange loss (gain), net of tax	\$000s	6,867	(258)	8,348	2,782
Impact of foreign exchange on deferred income taxes	\$000s	(5,955)	(889)	(6,413)	(225)
Inventory impairment (reversal), net of tax	\$000s	10,387	(350)	10,311	(1,762)
Loss on sale of marketable securities	\$000s	–	–	534	–
Impairment of mineral properties, plant and equipment, net of tax	\$000s	125,168	52,903	125,168	52,903
Adjusted net (loss) income	\$000s	(37,722)	10,223	(22,391)	57,136
Weighted average number of common shares outstanding, as reported	shares	808,689,807	311,196,542	552,547,321	307,975,052
Adjusted (loss) earnings per share - basic	\$/share	(0.05)	0.03	(0.04)	0.19



4. Net cash or debt is calculated as the sum of the cash and cash equivalents balance net of debt as at the statement of financial position date. The net debt calculation excludes the convertible debentures and lease liabilities, due to the nature of the obligations, in order to show the nominal undiscounted debt.

A reconciliation of net cash (debt) is provided below:

		December 31, 2022	September 30, 2022	December 31, 2021
Cash and cash equivalents	\$000s	73,254	89,195	199,235
Debt	\$000s	(77,581)	(80,000)	(80,000)
Net (debt) cash	\$000s	(4,327)	9,195	119,235

## CAUTIONARY STATEMENT

Readers of this MD&A are encouraged to read the “Risk Factors” as more fully described in the Company’s filings with the Canadian Securities Administrators, including its Annual Information Form for the year ended December 31, 2021, available under the Company’s issuer profile on SEDAR at [www.sedar.com](http://www.sedar.com). The following, while not exhaustive, are important Risk Factors to consider: Construction and Start-up of New Mines; Infrastructure; San Antonio Option Risk; Net smelter return royalty risk; Operational Risks; The Company may not achieve its Production Estimates; Increase in Production Costs; COVID-19 Public Health Crisis; Operations in Mexico; Requirement of licenses, concessions and permits from various Mexican governmental authorities which, if not obtained or renewed in a timely manner or revoked, could have an adverse effect on our financial condition and results of operations; The Mexican government has exerted and continues to exert a significant influence on the Mexican economy; Safety and Security; Governmental Regulation of the Mining Industry; Commodity Price Volatility; Foreign Currency Exchange Rate Fluctuation; Permitting Risk; Mineral and Surface Rights; Rights, Licenses, Permits and Concessions; Unauthorized Mining Activities; Environmental Risks and Hazards; Labour and Employment Matters; Work Stoppages or Labour Disputes; Contractors; Attracting and Retaining Talented Personnel; Local Legal, Political and Economic Factors; Use of Derivatives; Obligations under the Senior Credit Facility; Liquidity and Counterparty Risk; Uncertain Global Economic and Geopolitical Conditions Could Materially Adversely Affect Our Business and Results of Operations; Recent Global Financial Conditions; Use of Ejido-owned Land; Unsettled First Nations Rights; Community Relations; Cybersecurity Risks; Security and Privacy Breaches; Uncertainty of Exploration and Development; Uncertainty in the Estimation of Mineral Reserves and Mineral Resources; Uncertainty Relating to Mineral Resources; Fluctuations in Operating Results can cause Common Share Price Decline; Changes in Climate Conditions; Foreign Subsidiaries; Competition for Exploration, Development and Operation Rights; Contract Renegotiation; Volatility of Market for the Company's Securities; Foreign Private Issuer Status; Internal Control over Financial Reporting and Disclosure Controls and Procedures; Acquisitions and Integration; Undisclosed Risks and Liabilities Relating to the Alio Business Combination; Risk Management; Insurance and Uninsured Risks; Dilution Risk; Asset Impairment Charges; Write-downs and Impairments; Exchange Controls; Possible Conflicts of Interest of Directors and Officers of the Company; Enforcement of Civil Liabilities in the United States; Foreign Corrupt Practices and Anti-Bribery Legislation.

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

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

Examples of such forward-looking information include statements pertaining to, without limitation, satisfying the conditions precedent for further draws on the Loan Facilities, satisfying ongoing covenants under the Loan Facilities, results of independent engineer technical reviews, the availability and change in terms of financing, the possibility of cost overruns and unanticipated costs and expenses, the Magino construction capital estimate, the ability to finance the balance of Magino construction activities, the ability to finance additional construction costs on terms acceptable to Argonaut, risks related to meeting the Magino construction project schedule, the impact of inflation on costs of exploration, development and production, risk of employee and/or contractor strike actions, the future price of gold and silver, the estimation of the mineral reserves and resources, the realization of mineral reserve and resource estimates, the timing and amount of estimated future production at each of the El Castillo mining complex, La Colorada mine and Florida Canyon mine, costs of production (including cash cost per gold ounce sold, This is a Non-IFRS Measure; please see “Non-IFRS Measures” section), expected capital expenditures, costs and timing of development of new deposits, success of exploration activities, permitting requirements, currency fluctuations, the ability to take advantage of forward sales agreements profitably, the ability to recover property potentially impaired by third party insolvency proceedings, requirements for additional capital, government regulation of mining operations, environmental risks and hazards, title disputes or claims and limitations on insurance coverage.

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

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

## TECHNICAL INFORMATION AND QUALIFIED PERSON

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

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

El Castillo Gold Mine	El Castillo Gold Mine, Durango, Mexico NI 43-101 Technical Report dated February 14, 2022 (effective date of October 1, 2021)
San Agustin Gold/Silver Mine	San Agustin Gold/Silver Mine, Durango, Mexico, NI 43-101 Technical Report dated February 14, 2022 (effective date of August 1, 2021)
La Colorada Gold/Silver Mine	La Colorada Gold/Silver Mine, Sonora, Mexico, NI 43-101 Technical Report dated February 14, 2022 (effective date of October 1, 2021)
Florida Canyon Gold Mine	NI 43-101 Technical Report on Mineral Resource and Mineral Reserve Florida Canyon Gold Mine, Pershing County, Nevada, USA dated July 8, 2020 and with an effective date of June 1, 2020
Magino Gold Project	Magino Gold Project, Ontario, Canada, NI 43-101 Technical Report, Mineral Resource and Mineral Reserve Update dated March 3, 2022 (effective date of February 14, 2022)
Cerro del Gallo Project	Pre-Feasibility Study Technical Report on the Cerro del Gallo Project, Guanajuato, Mexico dated January 31, 2020 (effective date of October 24, 2019)

Mineral Resources referenced herein are not Mineral Reserves and do not have demonstrated economic viability. Mineral Resource estimates do not account for mineability, selectivity, mining loss, and dilution. The Mineral Resource estimates include Inferred Mineral Resources that are normally considered too speculative geologically to

have economic considerations applied to them that would enable them to be categorized as Mineral Reserves. There is also no certainty that these Inferred Mineral Resources will be converted to Measured and Indicated categories through further drilling, or into Mineral Reserves, once economic considerations are applied.

## **CORPORATE DIRECTORY**

### **Directors**

James E. Kofman  
Richard Young  
Ian Atkinson  
Stephen Lang  
Dale C. Peniuk  
Paula Rogers  
Audra B. Walsh

Chairman  
President and Chief Executive Officer  
Non-Executive Director  
Non-Executive Director  
Non-Executive Director  
Non-Executive Director  
Non-Executive Director

### **Management and Officers**

Richard Young  
David A. Ponczoch  
Marc Leduc  
W. Robert Rose  
Brian Arkell

David Savarie  
Nancy Lee

President and Chief Executive Officer  
Chief Financial Officer  
Chief Operating Officer  
Vice President, Technical Services  
Vice President, Exploration and Mine Technical Services  
Vice President, General Counsel & Corporate Secretary  
Vice President, Human Resources

### **Auditors**

PricewaterhouseCoopers LLP  
Chartered Professional Accountants  
Vancouver, British Columbia

### **Legal Counsel**

Bennett Jones LLP  
Toronto, Ontario

### **Registered Office**

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ARGONAUT GOLD