ARGONAUT GOLD

Interim Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2021

(Unaudited and expressed in thousands of United States dollars)

ARGONAUT GOLD INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited and expressed in thousands of United States dollars)

	June 30, 2021	December 31, 2020
ASSETS		
Current assets		
Cash and cash equivalents	$ 216,024	$ 214,188
Receivables (Note 5)	26,530	28,033
Inventories (Note 6)	85,657	69,836
Prepaid income tax	309	1,145
Prepaid expenses and other	5,815	3,289
Marketable securities	7,315	7,998
Assets held for sale (Note 4)	35,966	35,934
	377,616	360,423
Non-current portion of inventory (Note 6)	8,276	12,742
Mineral properties, plant and equipment (Note 7)	752,431	634,967
Deferred income taxes	32,425	34,725
Reclamation deposits (Note 8)	8,749	8,457
Other assets	1,830	2,096
Total assets	$ 1,181,327	$ 1,053,410
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	$ 88,645	$ 52,655
Income taxes payable	24,729	17,095
Flow-through share premium (Note 12b)	2,352	1,435
Current portion of lease liabilities (Note 11)	11,178	10,128
Current portion of derivative liabilities (Note 18)	4,154	12,753
Liabilities held for sale (Note 4)	377	343
	131,435	94,409
Debt (Note 10)	58,520	58,306
Lease liabilities (Note 11)	30,022	23,186
Reclamation provision	54,992	54,202
Deferred income taxes	41,385	41,799
Derivative liabilities (Note 18)	—	4,885
Other liabilities	5,088	4,445
Total liabilities	321,442	281,232
SHAREHOLDERS' EQUITY		
Share capital (Note 12b)	1,030,535	1,002,448
Contributed surplus	20,564	20,913
Deficit	(129,061)	(177,846)
Accumulated other comprehensive loss	(62,153)	(73,337)
Total shareholders' equity	859,885	772,178
Total liabilities and shareholders' equity	$ 1,181,327	$ 1,053,410

Commitments and contingencies (Note 17)

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

ARGONAUT GOLD INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)
For the three and six months ended June 30, 2021 and 2020
(Unaudited and expressed in thousands of United States dollars)

	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Revenue	$ 120,194	$ 57,956	$ 225,461	$ 124,506
Cost of sales				
Production costs	61,241	30,884	123,536	72,516
Depreciation, depletion and amortization	18,881	8,801	36,451	19,914
Inventory write down (reversal) (Note 6)	236	602	(1,920)	522
Total cost of sales	80,358	40,287	158,067	92,952
Gross profit	39,836	17,669	67,394	31,554
Exploration expenses	147	116	462	379
General and administrative expenses	3,634	3,108	8,400	7,170
Care and maintenance expenses	—	8,201	—	8,201
Profit from operations	36,055	6,244	58,532	15,804
Finance income	469	18	725	46
Finance expenses	(750)	(268)	(1,425)	(560)
Gains (losses) on derivatives (Note 18)	(6,502)	(12,441)	12,306	(14,235)
Other income (expense) (Note 14)	3,620	982	3,023	(4,878)
Income (loss) before income taxes	32,892	(5,465)	73,161	(3,823)
Current income tax expense	12,907	4,566	22,545	7,358
Deferred income tax (recovery) expense	(3,489)	(2,329)	(652)	6,050
Income (loss) from continuing operations for the period	$ 23,474	$ (7,702)	$ 51,268	$ (17,231)
Loss from discontinued operations for the period (Note 4)	(1,696)	—	(2,483)	—
Net income (loss) for the period	$ 21,778	$ (7,702)	$ 48,785	$ (17,231)
Earnings (loss) per share from continuing operations				
Basic and diluted	$ 0.08	$ (0.04)	$ 0.17	$ (0.10)
Loss per share from discontinued operations				
Basic and diluted	(0.01)	—	(0.01)	—
Earnings (loss) per share				
Basic and diluted	$ 0.07	$ (0.04)	$ 0.16	$ (0.10)
Weighted average number of common shares outstanding (Note 13)				
Basic	310,318,903	180,697,053	304,934,741	180,495,707
Diluted	315,540,212	180,697,053	309,549,231	180,495,707

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

ARGONAUT GOLD INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the three and six months ended June 30, 2021 and 2020
(Unaudited and expressed in thousands of United States dollars)

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Net income (loss) for the period	$ 21,778	$ (7,702)	$ 48,785	$ (17,231)
Other comprehensive income (loss), net of tax				
Items that may be reclassified subsequently to net income (loss)				
Foreign currency translation differences	6,552	8,863	11,184	(10,851)
Comprehensive income (loss) for the period	$ 28,330	$ 1,161	$ 59,969	$ (28,082)

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

ARGONAUT GOLD INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three and six months ended June 30, 2021 and 2020
(Unaudited and expressed in thousands of United States dollars)

	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Operating activities				
Net income (loss) for the period	$ 21,778	$ (7,702)	$ 48,785	$ (17,231)
Items not affecting cash:				
Depreciation, depletion and amortization	18,956	8,872	36,603	20,055
Gain on sale of net smelter return royalty (Note 14)	(2,250)	—	(2,250)	—
Gain on settlement of receivables (Note 5)	(1,751)	—	(1,751)	—
Share-based compensation	712	659	2,242	1,343
Net finance expense	281	250	700	514
Unrealized loss (gain) on derivatives	5,335	12,441	(14,445)	14,235
Deferred income taxes	(1,223)	(2,303)	1,886	6,499
Reduction of obligation to renounce flow-through exploration expenditures	(2,891)	(26)	(3,163)	(482)
Inventory write down (reversal) (Note 6)	236	602	(1,920)	522
Non-cash items in loss from discontinued operations (Note 4)	704	—	1,205	—
Other	(610)	(1,030)	(911)	1,064
	39,277	11,763	66,981	26,519
Changes in non-cash operating working capital items				
Receivables	(164)	1,948	7	7,985
Inventories	(6,549)	14,501	(9,702)	20,670
Prepaid expenses and other	1,972	8	(372)	6
Accounts payable and accrued liabilities	(1,588)	(2,408)	2,533	(12,311)
Income taxes	13,090	5,751	22,353	8,906
Changes in other long-term assets	13	(1,355)	190	(1,340)
Changes in other long-term liabilities	489	125	597	(713)
Reclamation paid	—	—	(221)	—
Income taxes paid	(4,874)	(128)	(14,658)	(920)
Interest received	469	18	725	46
Net cash provided by operating activities	42,135	30,223	68,433	48,848
Investing activities				
Expenditures on mineral properties, plant and equipment	(57,638)	(6,411)	(96,052)	(18,939)
Proceeds from sale of net smelter return royalty (Note 14)	1,225	—	1,225	—
Receipt of receivables from acquisition (Note 5)	5,000	—	5,000	—
Other	75	(184)	75	(184)
Net cash used in investing activities	(51,338)	(6,595)	(89,752)	(19,123)
Financing activities				
Proceeds from issuance of common shares, net of share issuance costs (Note 12b)	(3)	—	7,895	—
Proceeds from issuance of flow-through shares, net of share issuance costs (Note 12b)	(42)	—	19,475	—
Proceeds from exercise of stock options	564	13	592	13
Debt repayment	—	—	—	(3,000)
Principal element of lease payments	(2,967)	(51)	(5,042)	(108)
Payments on settlement of derivatives	(739)	(203)	(2,357)	(203)
Interest paid	(2,290)	(99)	(2,968)	(224)
Net cash (used in) provided by financing activities	(5,477)	(340)	17,595	(3,522)
Effects of exchange rate changes on cash and cash equivalents	3,357	66	5,560	179
(Decrease) increase in cash and cash equivalents	(11,323)	23,354	1,836	26,382
Cash and cash equivalents, beginning of period	227,347	41,815	214,188	38,787
Cash and cash equivalents, end of period	$ 216,024	$ 65,169	$ 216,024	$ 65,169

Supplemental cash flow information (Note 4 and 15)

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

ARGONAUT GOLD INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

For the six months ended June 30, 2021 and 2020
(Unaudited and expressed in thousands of United States dollars)

	Six months ended June 30, 2021	Six months ended June 30, 2020
Share capital (Note 12b)		
Balance at the beginning of the period	$ 1,002,448	$ 789,425
Issuance of flow-through shares	16,025	—
Issuance of common shares by way of private placement	7,895	—
Issuance of common shares related to a community agreement	1,590	771
Issuance of common shares on exercise of Alio Replacement Options	1,079	—
Restricted share units vested, net of shares withheld to satisfy tax withholding	918	1,039
Performance share units vested, net of shares withheld to satisfy tax withholding	213	—
Issuance of common shares on exercise of stock options	225	21
Issuance of common shares for services provided on Magino	142	—
Balance at the end of the period	1,030,535	791,256
Contributed surplus		
Balance at the beginning of the period	20,913	18,004
Stock options exercised	(712)	(8)
Restricted share units and performance share units vested	(1,879)	(1,350)
Share-based compensation	2,242	1,343
Balance at the end of the period	20,564	17,989
Deficit		
Balance at the beginning of the period	(177,846)	(192,057)
Net income (loss) for the period	48,785	(17,231)
Balance at the end of the period	(129,061)	(209,288)
Accumulated other comprehensive loss		
Balance at the beginning of the period	(73,337)	(84,456)
Other comprehensive income (loss)	11,184	(10,851)
Balance at the end of the period	(62,153)	(95,307)
Total shareholders' equity	$ 859,885	$ 504,650

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

1 NATURE OF OPERATIONS

Argonaut Gold Inc. (the "Company" or "Argonaut") is a Canadian public company listed on the Toronto Stock Exchange ("TSX") and engaged in gold mining, mine development and mineral exploration activities at gold-bearing mineral properties in North America. As at June 30, 2021, the Company owned the producing El Castillo and San Agustin mines (which together form the El Castillo mining complex) in the State of Durango, Mexico, the producing La Colorada mine in the State of Sonora, Mexico, the producing Florida Canyon mine in Nevada, USA, the advanced exploration stage Cerro del Gallo project in the State of Guanajuato, Mexico, the advanced exploration stage Ana Paula project in the State of Guerrero, Mexico, and the construction stage Magino project in the Province of Ontario, Canada. The Company continues to hold several other exploration stage projects, all of which are located in North America.

On July 1, 2020, the Company acquired all of the outstanding common shares of Alio Gold Inc. ("Alio"). Through the acquisition, the Company acquired the Florida Canyon mine and the Ana Paula project. The Ana Paula project is a disposal group classified as assets held for sale as at December 31, 2020 and June 30, 2021 (note 4).

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

COVID-19 pandemic update

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"), as applicable to interim financial reports including International Accounting Standard 34, Interim Financial Reporting. Therefore, these interim condensed consolidated financial statements do not include all the information and note disclosures required by IFRS for annual financial statements and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2020, which have been prepared in accordance with IFRS.

The accounting policies applied in these interim condensed consolidated financial statements are consistent with those applied in the most recent annual consolidated financial statements for the year ended December 31, 2020, unless otherwise noted.

These interim condensed consolidated financial statements were approved by the Board of Directors of the Company on August 10, 2021.

a) Recent accounting pronouncements

In May 2020, the International Accounting Standards Board published a narrow scope amendment to IAS 16 - *Property, Plant and Equipment - Proceeds before Intended Use.* The amendment prohibits deducting from the cost of property, plant and equipment amounts received from selling items produced while preparing the asset for its intended use. Instead, amounts received will be recognized as sales proceeds and related cost in profit or loss. The effective date is for annual periods beginning on or after January 1, 2022, with early adoption permissible. The Company is assessing the effect of the narrow scope amendment on its consolidated financial statements and the possibility of early adoption.

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

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

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

b) Accounting policies adopted

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

c) Significant estimates

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

Key sources of estimation uncertainty that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities applied in the preparation of these interim condensed consolidated financial statements are consistent with those applied and disclosed in the annual consolidated financial statements for the year ended December 31, 2020.

Impairment of non-current assets

The Company reviews the carrying amounts of non-current assets whenever events or changes in circumstances indicate that the carrying amounts may exceed the estimated recoverable amounts determined by reference to estimated future operating results and discounted future cash flows. An impairment loss is recognized when the carrying amount of those assets is no longer considered recoverable. Non-current assets that have been impaired are tested for possible reversal of the impairment whenever events or changes in circumstance indicate that the impairment may have reversed.

Calculating the estimated recoverable amount of the CGUs for non-current asset impairment tests requires management to make estimates and assumptions with respect to estimated recoverable reserves and resources, metallurgical recovery estimates, estimated future commodity prices, future production and sales volume, the expected future operating, capital and reclamation costs, discount rates and exchange rates. These estimates are subject to various risks and uncertainties which may ultimately influence the estimated recoverability of the carrying amounts of non-current assets.

Future gold prices, exchange rates, discount rates, estimates of recoverable reserves and resources, operating and capital costs, and other key assumptions used in the Company’s impairment assessment are subject to greater uncertainty given the current economic environment (note 1). Changes in these assumptions could significantly impact the valuation of the Company’s assets in the future. Management’s impairment evaluation did not result in the identification of any impairment indicators or impairment reversal indicators as at June 30, 2021.

Work-in-process inventory / Production costs

The Company’s management makes estimates of the amount and the expected timing of recovery of recoverable ounces in work-in-process inventory, which is used in the determination of the cost of sales during the period. Management relies on internal geological and metallurgical experts to develop estimates. Changes in these estimates can result in a change in the carrying amount of inventories and reported cost of sales. The Company monitors the recovery of gold ounces from the leach pads and may refine its estimate based on these results. Assumptions used in inventory valuation include the gold price, type of ore tonnes mined, rock density, grams of gold per tonne, expected recovery rate based on the type of ore placed on the leach pads, timing of recovery, discount rate, remaining costs of completion to bring inventory into its saleable form and assays of solutions and gold on carbon, among others. Changes in estimates at June 30, 2021, resulted in the impairment reversal of an inventory provision of $1,920 at June 30, 2021 (note 6).

3 ALIO GOLD INC. ACQUISITION

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

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

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

4 ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

On March 31, 2021, the Company's previously announced definitive agreement (from September 11, 2020, and amended on December 30, 2020) with 1252201 BC Ltd ("AP Mining") to sell its 100% interest in the Ana Paula project, an exploration and evaluation asset included with the acquisition of Alio (note 3), expired. With the Company's primary focus currently on the development of the Magino project, the Company continues to market the Ana Paula project for sale. In accordance with IFRS 5 - *Non-current Assets Held for Sale and Discontinued Operations*, the Ana Paula project is a disposal group classified as assets held for sale as at June 30, 2021 and as a discontinued operation for the three and six months ended June 30, 2021.

At June 30, 2021, all assets and liabilities related to the Ana Paula project disposal group have been classified as held for sale and are presented in current assets and current liabilities in the statement of financial position. Expenses related to the Ana Paula project disposal group incurred during the three and six months ended June 30, 2021 have been presented as loss from discontinued operations in the interim condensed consolidated statements of income (loss). There is no impact on the presentation in the interim condensed consolidated statements of cash flows.

The loss and comprehensive loss of the Ana Paula disposal group are as follows:

	Three months ended June 30, 2021	Six months ended June 30, 2021
Care and maintenance	$ 993	$ 1,298
Foreign exchange loss	703	1,185
Loss and comprehensive loss from discontinued operations	$ 1,696	$ 2,483

The net assets of the Ana Paula disposal group are as follows:

	June 30, 2021	December 31, 2020
Cash and cash equivalents	$ 60	$ 75
Trade and other receivables	2,070	2,023
Advances and prepaid expenses	28	28
Mineral properties, plant and equipment, exploration and evaluation	33,808	33,808
Assets held for sale	35,966	35,934
Trade payables and accrued liabilities	357	343
Deferred income taxes	20	—
Liabilities held for sale	377	343
Net assets	$ 35,589	$ 35,591

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

The cash flows of the Ana Paula project disposal group are as follows:

	Three months ended June 30, 2021	Six months ended June 30, 2021
Cash used in operating activities	$ (967)	$ (1,313)
Cash received from the Company	949	1,298
Decrease in cash and cash equivalents	(18)	(15)
Cash and cash equivalents from discontinued operations, beginning of period	78	75
Cash and cash equivalents from discontinued operations, end of period	$ 60	$ 60

5 RECEIVABLES

	June 30, 2021	December 31, 2020
Mexican value added tax receivable	$ 15,651	$ 17,399
Canadian value added tax receivable	5,488	2,454
Receivables from acquisition[1]	3,560	6,896
Due from customer	609	715
Other receivables	1,222	569
	$ 26,530	$ 28,033

[1] On May 6, 2021, the Company entered into an agreement to settle a significant portion of the balance of receivables from acquisition for total proceeds of $7,675. Upon settlement, the Company recognized a gain on settlement of receivables from acquisition of $1,751 over the book value of components comprising the receivables from acquisition (note 14). The Company received $5,000 in cash on the date of settlement and a short-term promissory note in the amount of $2,675 to be paid in four equal installment payments from July to October 2021. The unsecured short-term promissory note includes an interest rate of 5.0% per annum. At June 30, 2021, the Company had accrued $22 in accrued interest receivable on the promissory note.

6 INVENTORIES

	June 30, 2021	December 31, 2020
Supplies	$ 12,939	$ 12,712
Work-in-process	80,081	68,564
Finished goods	913	1,302
	93,933	82,578
Non-current portion of work-in-process inventory	(8,276)	(12,742)
	$ 85,657	$ 69,836

Cost of inventories recognized as expense in cost of sales for the three and six months ended June 30, 2021 totaled $80,358 and $158,067, respectively (three and six months ended June 30, 2020 - $40,287 and $92,952, respectively).

During the three and six months ended June 30, 2021, the Company recognized a non-cash impairment of $236 and a non-cash impairment reversal of $1,920, respectively (three and six months ended June 30, 2020 - non-cash impairment of $602 and $522, respectively) at the El Castillo mining complex related to the net realizable value of the work-in process inventory, primarily due to a revision in management's estimate of the price of gold, the future recoverable ounces, costs to convert the non-current work-in-process inventory into saleable form and the expected timing of recoveries of the inventory.

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

7 MINERAL PROPERTIES, PLANT AND EQUIPMENT

	Exploration and evaluation	Assets under construction	Mineral properties(1)(3)(4)	Plant and equipment(1)(3)	Total(2)
Cost					
Balance at January 1, 2021	$ 134,299	$ 300,335	$ 651,787	$ 201,885	$ 1,288,306
Additions	650	111,221	13,713	21,983	147,567
Transfer	—	—	(2,559)	2,559	—
Disposals	—	—	—	(5,707)	(5,707)
Adjustment on currency translation	—	7,970	—	11	7,981
Balance at June 30, 2021	134,949	419,526	662,941	220,731	1,438,147
Accumulated depreciation, depletion, amortization and impairment					
Balance at January 1, 2021	111,034	—	427,522	114,783	653,339
Additions	—	—	27,984	9,425	37,409
Disposals	—	—	—	(5,032)	(5,032)
Balance at June 30, 2021	111,034	—	455,506	119,176	685,716
Net book value at June 30, 2021	$ 23,915	$ 419,526	$ 207,435	$ 101,555	$ 752,431
Cost					
Balance at January 1, 2020	$ 392,942	$ —	$ 531,716	$ 149,992	$ 1,074,650
Acquisitions (Note 3)	31,726	—	95,331	49,652	176,709
Additions	11,078	24,362	24,740	9,868	70,048
Transfer to assets under construction	(263,198)	263,198	—	—	—
Option proceeds	(383)	—	—	—	(383)
Impairment reversal	383	—	—	—	383
Disposals	(121)	—	—	(5,236)	(5,357)
Transfer to assets held for sale	(31,417)	—	—	(2,391)	(33,808)
Adjustment on currency translation	(6,711)	12,775	—	—	6,064
Balance at December 31, 2020	134,299	300,335	651,787	201,885	1,288,306
Accumulated depreciation, depletion, amortization and impairment					
Balance at January 1, 2020	111,034	—	392,518	107,012	610,564
Additions	—	—	38,925	14,403	53,328
Disposals	—	—	—	(4,685)	(4,685)
Impairment (reversal)(5)	—	—	(3,921)	(1,947)	(5,868)
Balance at December 31, 2020	111,034	—	427,522	114,783	653,339
Net book value at December 31, 2020	$ 23,265	$ 300,335	$ 224,265	$ 87,102	$ 634,967

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

(1) As at June 30, 2021, plant and equipment includes $11,470 and mineral properties includes $1,475 of mine development costs, primarily related to the El Castillo mining complex, the La Colorada mine and the Florida Canyon mine (December 31, 2020 - $1,532 and $10,729, respectively), which were not subject to depreciation and depletion at the statement of financial position date.

(2) Certain mineral properties, plant and equipment are held as security on the Company's revolving credit facility (note 10).

(3) During the six months ended June 30, 2021, the Company recorded right-of -use asset additions of $12,632 within plant and equipment. During 2020, the Company assumed right-of-use assets as part of the acquisition of Alio and recorded additions of $36,435 within plant and equipment (note 11). During the three and six months ended June 30, 2021, depreciation on right-of-use assets was $1,354 and $2,402 within plant and equipment, respectively and $10 and $21 within mineral properties, respectively (three and six months ended June 30, 2020 - $68 and $136 within plant and equipment, respectively and $10 and $21 within mineral properties, respectively). As at June 30, 2021, the net book value of right-of-use assets was $45,221 and $162 within plant and equipment and mineral properties, respectively (December 31, 2020 - $34,607 and $183 respectively).

(4) During the three and six months ended June 30, 2021, the Company capitalized $2,327 and $7,385 respectively (three and six months ended June 30, 2020 - $38 and $5,012 respectively) of deferred stripping costs to mineral properties. The depreciation expense related to deferred stripping for the three and six months ended June 30, 2021 was $4,820 and $8,728, respectively (three and six months ended June 30, 2020 - $1,401 and $3,463, respectively). Included in the mineral properties balance at June 30, 2021 is $10,626 and $13,533 (December 31, 2020 - $8,073 and $17,429) related to deferred stripping costs at the El Castillo mine and the La Colorada mine, respectively.

(5) During the year ended December 31, 2020, the Company recognized a non-cash impairment reversal of $2,019 and $3,921 at the La Colorada mine within plant and equipment and mineral properties, respectively. As at December 31, 2020, the Company also recognized other impairment of $72 within plant and equipment.

8 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 and surety bonding is no longer required.

At June 30, 2021, the reclamation deposits are carried at fair value of $8,749 (December 31, 2020 - $8,457). The reclamation deposits consist of $806 of cash, $5,597 of fixed income funds, and $2,346 of equity funds. During the three and six months ended June 30, 2021, interest income was $41 and $75, respectively, and gain on funds was $233 and $217, respectively (three and six months ended June 30, 2020 - $nil).

9 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2021	December 31, 2020
Trade accounts payable	$ 36,370	$ 30,182
Accrued liabilities	52,275	22,473
	$ 88,645	$ 52,655

At June 30, 2021, accounts payable and accrued liabilities included $43,544 (December 31, 2020 - $6,433) related to mineral properties, plant and equipment additions. At June 30, 2021 and December 31, 2020 accrued liabilities also included $223 and $449, respectively, in accrued interest on convertible debentures (note 10).

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

10 DEBT

		June 30, 2021		December 31, 2020
Revolving credit facility	$	—	$	—
Convertible debentures				
Debt liability		43,380		42,205
Derivative liability		15,140		16,101
Debt	$	58,520	$	58,306

Revolving credit facility

In October 2020, the Company amended and restated its credit agreement (the "Revolving Credit Facility", or "RCF"), with a syndicate of banks, whereby the lenders agreed to increase the amount of the RCF from $75,000 to $100,000 with an accordion feature of $25,000 (the "Amended Revolving Credit Facility" or "ARCF"). The ARCF interest rate is according to the terms described in the agreement and is on a scale ranging from London Inter-bank Offered Rate ("LIBOR") plus 2.25% to 3.50% on drawn amounts, and 0.56% to 0.79% on undrawn amounts, based on the Company's senior secured debt leverage ratio, as defined in the agreement. The Company incurred transaction costs and upfront fees of $488 on the setup of the ARCF, which are being amortized over the term of the ARCF.

As at June 30, 2021, the Company had utilized $nil of the ARCF (December 31, 2020 - $nil). The ARCF is secured by certain of the Company's assets and is subject to various covenants including those that require the Company to maintain certain tangible net worth and ratios for leverage and interest coverage. As at June 30, 2021, the Company was in compliance with these covenants.

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

Commitment Reduction Date	Accordion + Commitment
Initial	$125,000
30-Apr-23	$115,000
31-May-23	$100,000
30-Jun-23	$85,000
31-Jul-23	$70,000
31-Aug-23	$55,000

Convertible debentures

At June 30, 2021, the Company had $57,500 of unsecured convertible debentures (the "Debentures") outstanding. The Debentures mature on November 30, 2025 and bear interest at a rate of 4.625% per annum, payable semi-annually. The Debentures will not be redeemable by the Company before November 30, 2023. The Company intends to use the net proceeds of the Debentures for the advancement of the Magino project. The key terms of the Debentures include:

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

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

- The conversion price is subject to adjustment in certain instances such as dilution or a change of control, all as described in the Debenture indenture.

- The Company has an early redemption right whereby the Company may elect to redeem the Debentures in certain instances, all as described in the Debenture Indenture.

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

On June 30, 2021 and December 31, 2020, the fair value of the derivative liability was estimated at $15,140 and $16,101, respectively. The value was determined using the Partial Differential Equation model with the following assumptions:

	June 30, 2021	December 31, 2020
Share price	CA $ 2.97	CA $ 2.74
US$-CA$ exchange rate	0.8066	0.7859
Translated US$ share price	$ 2.40	$ 2.15
Volatility	59.27 %	65.68 %
Volatility discount	40.00 %	35.00 %
Volatility post-discount	35.56 %	42.69 %
Risk free rate	0.86 %	0.42 %
Credit spread	7.48 %	8.61 %
All-in rate	8.34 %	9.03 %

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

	Debt liability	Derivative liability	Total
Gross proceeds	$ 44,159	$ 13,341	$ 57,500
Less: transaction costs allocated to debt liability component	(2,346)	—	(2,346)
Balance upon issuance on October 30, 2020	41,813	13,341	55,154
Accrued interest and accretion of debt liability component	841	—	841
Change in fair value of derivative liability component	—	2,760	2,760
Accrued interest recorded in accrued liabilities - current	(449)	—	(449)
Balance at December 31, 2020	42,205	16,101	58,306
Accrued interest and accretion of debt liability component - year to date	2,500	—	2,500
Accrued interest - prior year	449	—	449
Change in fair value of derivative liability component	—	(961)	(961)
Interest paid - year to date	(1,551)	—	(1,551)
Accrued interest recorded in accrued liabilities - current	(223)	—	(223)
Balance at June 30, 2021	$ 43,380	$ 15,140	$ 58,520

During the three and six months ended June 30, 2021, capitalized interest and accretion expense on the Debentures was $1,265 and $2,500, respectively (three and six months ended June 30, 2020 - $nil). Interest is capitalized towards the Magino project until the time where it is ready for its intended use.

11 LEASE LIABILITIES

Equipment lease

Upon acquisition of Alio (note 3), the Company assumed a Master Services Agreement (the "Lease Agreement") to lease thirteen trucks and three loaders employed at the Florida Canyon Mine site. Upon acquisition, the Company valued the Lease Agreement using the present value of the lease payments and buyout amount, based on the expected hours of use and pattern of use, over the initially estimated four-year term of the lease. All units were in service at the acquisition date.

During the six months ended June 30, 2021, the Company amended its Lease Agreement to enact modifications to the scope and structure of the lease (the "Amended Lease Agreement"). The Amended Lease Agreement included the following modifications:

- The introduction of four new trucks (the "New Trucks") to be added to the existing thirteen trucks and three loaders resulting in a comprehensive lease of seventeen trucks and three loaders (the "Equipment"). The New Trucks entered service during the six months ended June 30, 2021. The component of the Amended Lease Agreement related to the New Trucks included an implicit interest rate of 4.04% and a fee structure separate from the amended fees on the original units within the Equipment, resulting in a separate expected value of the lease payments and buyout amount, based on the expected hours of use and pattern of use, over the expected remaining term of the lease. The expected lease term is for 65 months to November 2026 for the New Trucks.

- The Amended Lease Agreement modified the implicit interest rate of the Lease Agreement to 4.50% and included a revised fee structure for each of the original units of Equipment that changed the expected value of the lease payments and buyout amount per original unit of Equipment, based on the expected hours of use and pattern of use, over the expected remaining term of the lease. The expected remaining term of the Amended Lease Agreement resulted in varied lease terms per each original unit of Equipment, ending between November 2024 to March 2025.

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

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

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

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

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

Balance, July 1, 2020	$	36,359
Interest		1,459
Payments - principal and interest		(5,049)
Balance, December 31, 2020		32,769
Lease modification		1,672
New Trucks		10,787
Interest		830
Payments - principal and interest		(5,377)
Balance, June 30, 2021	$	40,681
Current portion of equipment lease liabilities	$	10,898
Non-current portion of equipment lease liabilities	$	29,783

The Equipment is being amortized straight line over the life of the mine to an estimated net recoverable value. Effective January 1, 2021, the Company revised its estimate of the net recoverable value of its Equipment from $500 to $100, for each truck and loader. The change in the accounting estimate was treated prospectively. For the three and six months ended June 30, 2021, the Company recorded depreciation on the Equipment of $1,302 and $2,298, respectively (three and six months ended June 30, 2020 - $nil).

Other operating leases

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

		June 30, 2021		December 31, 2020
Current portion of lease liabilities	$	280	$	286
Non-current portion of lease liabilities		239		259
	$	519	$	545

For the three and six months ended June 30, 2021, the Company recorded depreciation on other operating leases of $62 and $125, respectively (three and six months ended June 30, 2020 - $79 and $157, respectively).

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

12 SHAREHOLDERS' EQUITY

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

b) Issued and outstanding share capital:

	Number of shares	Amount
Balance at January 1, 2020	179,496,503	$ 789,425
Issuance of common shares related to acquisition of Alio	58,533,234	109,956
Issuance of common shares by way of public offering	49,608,700	89,439
Issuance of common shares on exercise of Alio Replacement Options (Note 12d)	1,947,562	3,529
Issuance of common shares related to a community agreement	980,630	1,722
Issuance of common shares for services provided on Magino	480,985	793
Restricted share units issued to employees, net of shares withheld(1)	520,243	852
Restricted share units issued to directors	172,833	187
Issuance of flow-through shares	3,002,650	6,499
Stock options exercised (Note 12c)	19,167	46
Balance at December 31, 2020	294,762,507	1,002,448
Issuance of flow-through shares	9,379,515	16,025
Issuance of shares by way of private placement	4,255,319	7,895
Issuance of common shares related to a community agreement	809,717	1,590
Issuance of common shares for services provided on Magino	50,000	142
Restricted share units issued to employees, net of shares withheld(1)	669,684	918
Performance share units issued to employees, net of shares withheld(2)	146,719	213
Issuance of common shares on exercise of Alio Replacement Options (Note 12d)	445,072	1,079
Stock options exercised (Note 12c)	123,243	225
Balance at June 30, 2021	310,641,776	$ 1,030,535

(1) During the six months ended June 30, 2021, 330,562 vested restricted share units (year ended December 31, 2020 - 237,258 vested restricted share units) were withheld to satisfy tax withholding requirements under the Company's net settlement feature for vested restricted share units.

(2) During the six months ended June 30, 2021, 75,944 vested performance share units were withheld to satisfy tax withholding requirements under the Company's net settlement feature for vested performance share units.

Issuance of common shares related to acquisition of Alio (note 3)

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

Private placement

In March 2021, the Company completed a private placement of 4,255,319 common shares, issued at a price of CA$2.35 per common share, for gross proceeds of CA$10,000 ($7,917) 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. The Company intends to use the proceeds for the Magino project construction activities and general corporate purposes.

Transaction costs related to the private placement were approximately CA$28 ($22), resulting in net proceeds to the Company of approximately CA$9,972 ($7,895).

Public offering

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

Community agreement

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

Flow-through common shares

In February 2021, the Company closed an offering of Canadian development expenditures ("CDE") flow-through common shares of the Company (the "CDE Flow-Through Shares") with a syndicate of underwriters pursuant to which the underwriters purchased, on a bought deal basis, 9,379,515 CDE Flow-Through Shares at CA$2.82 per share for total gross proceeds of CA$26,450 ($20,808). Share issuance costs of CA$1,691 ($1,334) were incurred in relation to the offering, resulting in net proceeds to the Company of CA$24,759 ($19,474). The CDE Flow-Through Shares will provide the subscribers a Canadian tax deduction for 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 will be 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 $16,022 and flow-through share premium of $3,453. During the three and six months ended June 30, 2021, the Company used CA$14,993 ($12,272) and CA$15,411 ($12,605), respectively, of the proceeds to fund development of the Magino project and is required to incur the remainder of the expenditures during 2021. As at June 30, 2021, the remaining flow-through share premium liability was CA$1,832 ($1,391).

In October 2020, the Company issued 3,002,650 Canadian exploration expenditures ("CEE") flow-through common shares of the Company (the "CEE Flow-Through Shares") at a price of CA$3.83 per share by way of private placement for gross proceeds of CA$11,500 ($8,753). Share issuance costs of CA$812 ($618) were incurred in relation to the offering, resulting in net proceeds to the Company of CA$10,688 ($8,135). The net proceeds were bifurcated between share capital of $6,499 and flow-through share premium of $1,636. Under the terms of the CEE Flow-Through Shares agreements, the Company agreed to incur CA$11,500 ($8,753) of qualified CEE by December 31, 2021 and renounce those expenditures to the investors effective December 31, 2020.

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

During the three and six months ended June 30, 2021, the Company used CA$1,712 ($1,401) and CA$3,248 ($2,623), respectively of the proceeds to fund exploration expenditures near the Magino project. As at June 30, 2021, the total expenditures to date were CA$4,529 ($3,623), with the Company required to incur the remainder of the expenditures during 2021. As at June 30, 2021, the remaining flow-through share premium liability was CA$1,303 ($961).

c) Share-based compensation

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

Stock options

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

The following table summarizes information relating to stock options outstanding and exercisable at June 30, 2021 that were granted by the Company:

Exercise price per share (CA$)	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price (CA$)	Options exercisable	Weighted average exercise price (CA$)
$ 1.10 - 1.31	1,318,483	4.60	$ 1.10	1,318,483	$ 1.10
1.32 - 2.48	1,891,353	7.48	1.97	1,126,536	2.08
2.49 - 4.00	793,657	4.82	2.60	722,203	2.58
4.01 - 7.00	245,578	2.61	4.77	245,578	4.77
$ 7.01 - 10.35	312,791	1.37	8.65	312,791	8.65
$ 1.10 - 10.35	4,561,862	5.50	$ 2.44	3,725,591	$ 2.56

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

The following table summarizes stock option activity for the Company:

	Options	Weighted average exercise price (CA$)
Outstanding at January 1, 2020	4,143,818	$ 2.75
Granted	805,855	1.46
Exercised	(19,167)	2.04
Forfeited	(361,261)	3.57
Expired	(10,000)	3.25
Outstanding at December 31, 2020	4,559,245	2.46
Granted	386,013	2.24
Exercised	(123,243)	1.56
Forfeited	(159,378)	2.57
Expired	(100,775)	4.48
Outstanding at June 30, 2021	4,561,862	$ 2.44

The weighted average share price at the time of exercise for 2021, was CA$2.89 per share (2020 - CA$1.95 per share).

The total share-based compensation expense related to stock options granted by the Company for the three and six months ended June 30, 2021, was $66 and $146, respectively (three and six months ended June 30, 2020 - $77 and $144, respectively). As at June 30, 2021, there was $331 of unamortized stock-based compensation expense related to stock options granted (December 31, 2020 - $214).

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

	2021	2020
Weighted average share price	CA $ 2.43	CA $ 1.46
Expected dividend yield	Nil	Nil
Expected volatility	62.9 %	62.2 %
Risk-free interest rate	0.6 %	1.0 %
Estimated forfeiture rate	11.9 %	8.0 %
Expected life	5 years	5 years
Weighted average fair value per stock option granted	CA $ 1.28	CA $ 0.77

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

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

Restricted share units

The following table summarizes the RSU activity for the Company:

	RSUs	Weighted average fair value (CA$)
Outstanding at January 1, 2020	1,750,951	$ 1.95
Granted[1]	1,575,459	1.46
Vested[2]	(930,334)	1.95
Forfeited	(146,753)	1.75
Outstanding at December 31, 2020	2,249,323	1.62
Granted[1]	1,014,195	2.39
Vested[2]	(1,000,246)	1.74
Forfeited	(103,462)	1.86
Outstanding at June 30, 2021	2,159,810	$ 1.91

(1) The 1,014,195 RSUs granted during the six months ended June 30, 2021 were all granted to employees (year ended December 31, 2020 - 1,402,626 to employees and 172,833 to directors) that will be issued once the shares vest according to the terms below.

(2) The 1,000,246 RSUs vested during the six months ended June 30, 2021 were all granted to employees. The RSUs vested during the 2020 include 757,501 RSUs granted to employees and 172,833 RSUs granted to directors.

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

The total share-based compensation expense related to RSUs for the three and six months ended June 30, 2021, was $359 and $681, respectively (three and six months ended June 30, 2020 - $314 and $747, respectively). As at June 30, 2021, there was $1,583 of unamortized stock-based compensation expense related to RSUs (December 31, 2020 - $774).

The Company has adopted a net withholding settlement feature for vested RSUs, where a portion of the vested RSUs can be withheld, at the election of the employee, to satisfy tax withholding obligations, pursuant to which the Company withholds the number of shares necessary to satisfy such withholding obligations and remits the tax withholdings to the taxing authorities on behalf of the employee. As at June 30, 2021, if all RSUs were to have vested and all employees elected the net withholding settlement feature on vesting, based on the Company's share price at June 30, 2021, the Company estimates that it would have had to transfer approximately $1,294 to the tax authorities for withholding taxes on such vested RSUs.

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

Performance share units

The following table summarizes the PSU activity for the Company:

	PSUs	Weighted average fair value (CA$)
Outstanding at January 1, 2020	1,366,006	$ 2.52
Granted	959,268	1.30
Forfeited	(27,573)	3.07
Outstanding at December 31, 2020	2,297,701	2.00
Granted	677,835	2.63
Vested	(222,663)	2.49
Forfeited	(333,995)	3.46
Outstanding at June 30, 2021	2,418,878	$ 1.93

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 Company. The number of units that vest is determined by multiplying the number of units granted to the participant by an adjustment factor, which ranges from 0 to 2.0. The total share-based compensation expense related to PSUs for the three and six months ended June 30, 2021 was $286 and $775, respectively (three and six months ended June 30, 2020 - $268 and $452, respectively). As at June 30, 2021, there was $1,639 of unamortized stock-based compensation expense related to PSUs (December 31, 2020 - $1,013).

Deferred share units

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

	DSUs	Weighted average fair value (CA$)
Outstanding at January 1, 2021	—	$ —
Granted	345,944	2.35
Outstanding at June 30, 2021	345,944	$ 2.35

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

The total share-based compensation expense related to DSUs for the three and six months ended June 30, 2021, was $nil and $640, respectively (three and six months ended June 30, 2020 - $nil).

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

d) Alio Replacement Options and Alio Warrants

At June 30, 2021, the Company had outstanding Alio Replacement Options along with Alio Warrants (note 3).

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

	Options	Weighted average exercise price (CA$)
Outstanding at July 1. 2020	3,121,352	$ 3.20
Exercised	(1,947,562)	1.20
Outstanding at December 31, 2020	1,173,790	6.53
Exercised	(445,072)	1.18
Outstanding at June 30, 2021	728,718	$ 9.79

The following table summarizes information relating to Alio Replacement Options outstanding and exercisable at June 30, 2021:

Exercise price per share (CA$)	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price (CA$)	Options exercisable	Weighted average exercise price (CA$)
$ 1.06 - 1.31	68,726	3.75	$ 1.06	68,726	$ 1.06
1.32 - 2.48	29,980	2.99	1.49	29,980	1.49
2.49 - 4.00	59,289	0.14	3.68	59,289	3.68
4.01 - 7.00	309,181	0.96	4.68	309,181	4.68
$ 7.01 - 46.57	261,542	0.30	20.46	261,542	20.46
$ 1.06 - 46.57	728,718	1.00	$ 9.79	728,718	$ 9.79

On July 1, 2021, 470,105Alio Replacement Options expired at a weighted average exercise price of C$7.07 As of July 2, 2021, there were 258,613 Alio Replacement Options remaining at a weighted average exercise price of C$14.73.

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

	Warrants	Weighted average fair value (CA$)
Outstanding at July 1, 2020	1,544,892	$ 5.42
Expired	(742,153)	6.47
Outstanding at December 31, 2020 and June 30, 2021	802,739	$ 4.45

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

The following table summarizes information relating to Alio Warrants outstanding and exercisable:

	June 30, 2021
Exercise price per share (CA$)	$ 4.45
Number outstanding and exercisable	802,739
Remaining contractual life (years)	0.08

The remaining outstanding Alio Warrants expired unexercised in July 2021.

13 SHARES OUTSTANDING

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Basic weighted average shares outstanding	310,318,903	180,697,053	304,934,741	180,495,707
Weighted average shares dilution adjustments:(1)(2)				
Stock options	1,706,027	—	1,512,657	—
Restricted share units	1,505,742	—	1,383,397	—
Performance share units	1,663,596	—	1,464,234	—
Deferred share units	345,944	—	254,202	—
Diluted weighted average shares outstanding	315,540,212	180,697,053	309,549,231	180,495,707
Antidilutive securities	21,305,414	9,134,842	21,431,954	9,134,842

(1) Impact of dilutive stock options and other share-based compensation arrangements were determined using the Company's average share price for the three and six months ended June 30, 2021 of CA$2.91 and CA$2.62, respectively (three and six months ended June 30, 2020 - CA$1.70 and CA$1.61, respectively).

(2) As a result of the net loss incurred during the three and six months ended June 30, 2020, stock options and other share-based compensation arrangements have been excluded from the calculation of diluted loss per share as they were anti-dilutive.

14 OTHER INCOME (EXPENSE)

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Foreign exchange (loss) gain	$ (650)	$ 430	$ (639)	$ (5,568)
Gain on sale of net smelter return royalty(1)	2,250	—	2,250	—
Gain on settlement of receivables from acquisition (Note 5)	1,751	—	1,751	—
Revaluation of marketable securities	(107)	—	(705)	—
Other income	376	552	366	690
	$ 3,620	$ 982	$ 3,023	$ (4,878)

(1) On April 8, 2021, the Company entered into an agreement to sell a 2.5% net smelter royalty (“NSR”) on the La Fortuna property, which is a non-core exploration property. The Company agreed to receive $2,250 in gross consideration for the sale of the NSR, less transaction costs of $25, for net proceeds of $2,225, to be paid fully in cash. The Company received $1,225 on the date of closing and will receive the remaining $1,000 within six months from the closing date.

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

15 SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
(Decrease) increase in expenditures on mineral properties, plant and equipment related to a decrease (increase) in accounts payable and accrued liabilities	$(23,304)	$ 226	$(37,111)	$ (461)
Fair value of common shares issued related to a community agreement capitalized as mineral property additions	—	—	1,590	771
Fair value of RSUs allocated from contributed surplus to share capital upon vesting	105	—	1,524	1,039
Fair value of PSUs allocated from contributed surplus to share capital upon vesting	18	—	355	—
Value of leases capitalized as equipment additions	5,566	—	12,632	—
Fair value of common shares issued for services provided on Magino	142	—	142	—

16 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. Early-stage exploration and other operations are reported in the Corporate and other segment. The Ana Paula project is not presented in this note due to it being a disposal group held for sale and a discontinued operation (note 4).

The Company operates in the mining industry and its principal product is gold. During the three and six months ended June 30, 2021 sales were to two customers (three and six months ended June 30, 2020 - three customers) and were recognized at a point in time. The Company's revenue is generated on the sale of product originating from Mexico and the United States. As at June 30, 2021, the Company's significant mineral properties are located in Canada (Magino), Mexico (El Castillo mining complex, La Colorada and Cerro del Gallo), and the United States (Florida Canyon).

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

The following tables summarize segment information of the Company:

	El Castillo mining complex	La Colorada	Florida Canyon	Cerro del Gallo	Magino	Corporate and other	Total
Three months ended June 30, 2021							
Revenue	$ 61,295	$ 33,487	$ 25,412	$ —	$ —	$ —	$ 120,194
Production costs	33,461	12,176	15,604	—	—	—	61,241
Depreciation, depletion and amortization	10,418	5,358	3,105	—	—	—	18,881
Inventory write down (Note 6)	236	—	—	—	—	—	236
Total cost of sales	44,115	17,534	18,709	—	—	—	80,358
Gross profit	17,180	15,953	6,703	—	—	—	39,836
Exploration expenses	—	—	—	—	—	147	147
General and administrative expenses	438	240	—	24	(16)	2,948	3,634
Profit (loss) from operations	$ 16,742	$ 15,713	$ 6,703	$ (24)	$ 16	$ (3,095)	$ 36,055
Capital expenditures	$ 4,479	$ 918	$ 12,308	$ 250	$ 69,387	$ 861	$ 88,203
Six months ended June 30, 2021							
Revenue	$ 118,650	$ 58,585	$ 48,226	$ —	$ —	$ —	$ 225,461
Production costs	65,174	23,772	34,590	—	—	—	123,536
Depreciation, depletion and amortization	20,396	9,611	6,444	—	—	—	36,451
Reversal of inventory write down (Note 6)	(1,920)	—	—	—	—	—	(1,920)
Total cost of sales	83,650	33,383	41,034	—	—	—	158,067
Gross profit	35,000	25,202	7,192	—	—	—	67,394
Exploration expenses	—	—	—	—	—	462	462
General and administrative expenses	1,003	519	—	26	(16)	6,868	8,400
Income (loss) from operations	$ 33,997	$ 24,683	$ 7,192	$ (26)	$ 16	$ (7,330)	$ 58,532
Capital expenditures	$ 9,473	$ 3,256	$ 21,394	$ 649	$ 111,612	$ 1,183	$ 147,567
June 30, 2021							
Mineral properties, plant and equipment	$ 89,396	$ 49,876	$ 162,616	$ 19,129	$ 419,588	$ 11,826	$ 752,431
Total assets	$ 181,824	$ 104,569	$ 221,683	$ 20,989	$ 434,531	$ 217,731	$1,181,327

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

	El Castillo mining complex	La Colorada	Florida Canyon	Cerro del Gallo	Magino	Corporate and other	Total
Three months ended June 30, 2020							
Revenue	$ 44,921	$ 13,035	$ —	$ —	$ —	$ —	$ 57,956
Production costs	21,771	9,113	—	—	—	—	30,884
Depreciation, depletion and amortization	6,130	2,671	—	—	—	—	8,801
Inventory write down	602	—	—	—	—	—	602
Total cost of sales	28,503	11,784	—	—	—	—	40,287
Gross profit	16,418	1,251	—	—	—	—	17,669
Exploration expenses	—	—	—	—	—	116	116
General and administrative expenses	431	298	—	—	—	2,379	3,108
Care and maintenance expenses	6,518	1,683	—	—	—	—	8,201
Profit (loss) from operations	$ 9,469	$ (730)	$ —	$ —	$ —	$ (2,495)	$ 6,244
Capital expenditures	$ 1,646	$ 1,262	$ —	$ 80	$ 3,094	$ 105	$ 6,187
Six months ended June 30, 2020							
Revenue	$ 89,796	$ 34,710	$ —	$ —	$ —	$ —	$ 124,506
Production costs	49,081	23,435	—	—	—	—	72,516
Depreciation, depletion and amortization	12,970	6,944	—	—	—	—	19,914
Inventory write down	522	—	—	—	—	—	522
Total cost of sales	62,573	30,379	—	—	—	—	92,952
Gross profit	27,223	4,331	—	—	—	—	31,554
Exploration expenses	—	—	—	—	—	379	379
General and administrative expenses	968	761	—	—	—	5,441	7,170
Care and maintenance expenses	6,518	1,683	—	—	—	—	8,201
Income (loss) from operations	$ 19,737	$ 1,887	$ —	$ —	$ —	$ (5,820)	$ 15,804
Capital expenditures	$ 7,094	$ 5,048	$ —	$ 423	$ 6,886	$ 667	$ 20,118
December 31, 2020							
Mineral properties, plant and equipment	$ 97,445	$ 59,220	$ 146,725	$ 18,486	$ 300,037	$ 13,054	$ 634,967
Total assets	$ 186,906	$ 96,112	$ 175,918	$ 18,486	$ 307,522	$ 268,466	$1,053,410

17 COMMITMENTS AND CONTINGENCIES

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

The Company is required to incur expenses and renounce all CDE and CEE in relation to its CDE Flow-Through Shares and CEE Flow-Through Shares in favor of the subscribers, effective on or before December 31, 2021 (note 12b). As at June 30, 2021, the remaining flow-through CDE and CEE to be incurred are $8,906 and $5,624, respectively.

Notice of Civil Claim

In May 2019, 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.

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

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 Company has reviewed the claim and is of the view that it is without merit. However, the outcome of the claim and the plaintiff's appeal of the court's decision on certification is not determinable at this time. Accordingly, no liability has been accrued in the Alio purchase price allocation and no liability has been recognized in the Company's consolidated financial statements.

18 FINANCIAL INSTRUMENTS AND RISKS

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

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

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

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

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

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

	June 30, 2021	December 31, 2020
Financial assets at amortized cost[(1)]	$ 221,415	$ 222,369
Financial liabilities at amortized cost[(2)]	(180,164)	(128,951)
Financial assets at fair value through profit or loss[(3)]	16,064	16,455
Financial liabilities at fair value through profit or loss[(4)]	(19,294)	(33,739)

(1) Financial assets at amortized cost include cash and cash equivalents and receivables.

(2) Financial liabilities at amortized cost include accounts payable and accrued liabilities, debt and other liabilities.

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

(4) Financial liabilities at fair value through profit or loss include derivative liabilities.

Upon acquisition of Alio (note 3), 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 interim condensed consolidated statements of income (loss).

As at June 30, 2021 and December 31, 2020, the carrying amounts of cash and cash equivalents, receivables, and accounts payable and accrued liabilities are considered to be reasonable approximations of their fair values due to the short-term nature of these instruments. As at June 30, 2021 and December 31, 2020, the carrying amounts of other liabilities and debt not arising from the acquisition are considered to be reasonable approximations of their fair values as either there have been no significant changes in market interest rates since inception or the liability bears interest at a floating rate. The carrying value of other liabilities and debt arising from the acquisition of Alio are considered to be reasonable approximations of their fair value as the fair value has been revalued on acquisition and there have been no significant changes in market interest rates since then. These financial assets and liabilities are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs. As at June 30, 2021, the fair value of the Debentures is $71,875, determined by reference to published price quotations in an active market (classified as level 1 in the fair value hierarchy).

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

Commodity derivative contracts

On August 23, 2019, the Company entered into zero-cost collar contracts whereby it purchased a series of gold put option contracts and sold a series of gold call option contracts with equal and offsetting values at inception (referred to as the "commodity contracts"). The Company's strategy is to remain unhedged on gold production; however, by initiating this price protection program for these ounces over this term and at these prices, the Company was able to ensure it could profitably extend operations at the El Castillo mine.

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

Commodity contracts at inception		Quantity[2] (Ounces)	Term	Strike price per ounce[1][2]
Gold put options - purchased	Expired	58,800	January 2020 - December 2020	$1,450
Gold call options - sold	Expired	44,100	January 2020 - December 2020	$1,672
Gold call options - sold	Expired	14,700	January 2020 - December 2020	$1,755
Gold put options - purchased	Expired	25,800	January 2021 - June 2021	$1,450
Gold call options - sold	Expired	19,350	January 2021 - June 2021	$1,709
Gold call options - sold	Expired	6,450	January 2021 - June 2021	$1,785
Gold put options - purchased	Active	25,800	July 2021 - December 2021	$1,450
Gold call options - sold	Active	19,350	July 2021 - December 2021	$1,709
Gold call options - sold	Active	6,450	July 2021 - December 2021	$1,785
Gold put options - purchased	Active	18,000	January 2022 - June 2022	$1,450
Gold call options - sold	Active	13,500	January 2022 - June 2022	$1,745
Gold call options - sold	Active	4,500	January 2022 - June 2022	$1,816

[1] Contracts are exercisable based on the average price for the month being below the strike price of the put or above the strike price of the call.

[2] Quantities and strike prices do not fluctuate by month within each calendar year.

The resulting fair values of the outstanding commodity contracts at June 30, 2021, have been recognized, on a net basis, in derivative liabilities on the interim condensed consolidated statements of financial position. These derivative instruments were not designated as hedges by the Company and are fair valued at the end of each reporting period with the fair value adjustment recorded in the interim condensed consolidated statements of income (loss). The commodity contracts are valued using a Levy two moment valuation model which uses quoted observable inputs and are classified as Level 2 in the fair value hierarchy. During the three and six months ended June 30, 2021, unrealized losses and reversal of prior period unrealized losses of $302 and $13,484, respectively (three and six months ended June 30, 2020, unrealized losses - $12,017 and $13,811, respectively) were recognized in the interim condensed consolidated statements of income (loss) on the fair value of the commodity contracts. During the three and six months ended June 30, 2021, realized losses on the commodity contracts of $1,167 and $2,139, respectively (three and six months ended June 30, 2020 - $424 and $424, respectively) were recognized in the interim condensed consolidated statements of income (loss).