



# MAGNAGOLD

**MAGNA GOLD CORP.**

**CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE NINE MONTHS ENDED DECEMBER 31, 2020  
AND YEAR ENDED MARCH 31, 2020  
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS)

## **INDEPENDENT AUDITOR'S REPORT**

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To the Shareholders of Magna Gold Corp.

### ***Opinion***

We have audited the consolidated financial statements of Magna Gold Corp. and its subsidiaries (together the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020, March 31, 2020 and April 1, 2019, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the nine-month period ended December 31, 2020 and the year ended March 31, 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020, March 31, 2020 and April 1, 2019, and its consolidated financial performance and its consolidated cash flows for the nine-month period ended December 31, 2020 and the year ended March 31, 2020 in accordance with International Financial Reporting Standards.

### ***Basis for Opinion***

We conducted our audits 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 are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

### ***Material Uncertainty Related to Going Concern***

We draw attention to Note 2 in the consolidated financial statements, which describes conditions indicating that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### ***Emphasis of Matter – Comparative Information***

We draw attention to notes 3 d) and e) to the consolidated financial statements, which explains that certain comparative information presented as at March 31, 2020 and April 1, 2019 have been restated to reflect the Company's change in presentation currency and change in accounting policy for exploration and evaluation activities. Our opinion is not modified in respect of these matters.

### ***Other Information***

Management is responsible for the other information. The other information comprises the information included in the Management's Discussion and Analysis filed with the relevant Canadian securities commissions.

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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 audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits and remain alert for indications that the other information 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 in this auditor's report. We have nothing to report in this regard.

### ***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 International Financial Reporting Standards, 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.

### ***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.

The engagement partner on the audit resulting in this independent auditor's report is Anna C. Moreton.

*Baker Tilly WM LLP*

CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, B.C.  
April 7, 2021

**Magna Gold Corp.**  
Consolidated Statements of Financial Position  
(Expressed in thousands of United States Dollars)

		Restated - Note 3		
	Note	December 31, 2020	March 31, 2020	April 1, 2019
<b>ASSETS</b>				
<b>Current</b>				
Cash		\$ 7,056	\$ 164	\$ 1,213
Funds held in escrow		-	710	1,985
Trade and other receivables	9	7,579	5	4
Inventories	10	11,882	-	-
Advances and prepaid expenses		746	24	-
<b>Total current assets</b>		<b>27,263</b>	<b>903</b>	<b>3,202</b>
Mineral properties and plant and equipment	11	16,861	13	-
Exploration and evaluation	11	9,610	2,240	-
Deferred tax assets	19	772	-	-
<b>Total assets</b>		<b>\$ 54,506</b>	<b>\$ 3,156</b>	<b>\$ 3,202</b>
<b>LIABILITIES</b>				
<b>Current</b>				
Trade payables and accrued liabilities	12	\$ 17,899	\$ 150	\$ 69
Other payables	13	11,285	-	5
Sandstorm deferred revenue	14	632	-	-
<b>Total current liabilities</b>		<b>29,816</b>	<b>150</b>	<b>74</b>
Sandstorm deferred revenue	14	2,463	-	-
Other provisions	15	1,200	-	-
Provision for site reclamation and closure	15	5,567	-	-
Deferred tax liabilities	19	589	-	-
<b>Total liabilities</b>		<b>39,635</b>	<b>150</b>	<b>74</b>
<b>EQUITY</b>				
Issued capital	16	21,285	4,805	3,932
Shares to be issued		-	710	-
Share-based payment reserve	18	3,429	11	11
Cumulative translation reserve		(1,233)	365	(106)
Deficit		(8,610)	(2,885)	(709)
<b>Total equity</b>		<b>14,871</b>	<b>3,006</b>	<b>3,128</b>
<b>Total liabilities and equity</b>		<b>\$ 54,506</b>	<b>\$ 3,156</b>	<b>\$ 3,202</b>

Nature of operations (note 1)  
Going concern (note 2)  
Commitments and contingencies (note 22)  
Events after the reporting period (note 26)

Approved on behalf of the Board:

/s/ "Arturo Bonillas"

Arturo Bonillas  
Director

/s/ "Colin Sutherland"

Colin Sutherland  
Director

The accompanying notes are an integral part of these Consolidated Financial Statements.

**Magna Gold Corp.**

## Consolidated Statements of Loss and Comprehensive Loss

(Expressed in thousands of United States Dollars, except number of common shares and per share amounts)

		Restated - Note 3	
		<b>Nine months ended December 31,</b>	Year ended March 31,
	Note	<b>2020</b>	2020
Metal revenues	23	\$ 37,047	\$ -
Cost of sales	8a)	35,128	-
<b>Income from mine operations</b>		<b>1,919</b>	<b>-</b>
Corporate and administrative expenses	8b)	3,298	1,685
Share-based compensation	18a)	3,163	28
Exploration expenses	8c)	459	6
Acquisition transaction costs	6	681	-
<b>Loss from operations</b>		<b>(5,682)</b>	<b>(1,719)</b>
Other income, net		123	-
Finance expenses	8d)	(838)	-
Foreign exchange gain (loss)		2,193	(457)
Loss on derivative contracts	21	(53)	-
<b>Net loss before income taxes</b>		<b>(4,257)</b>	<b>(2,176)</b>
<b>Income taxes</b>			
Current tax recovery	19	(677)	-
Deferred tax expense	19	2,145	-
Income tax expense		1,468	-
<b>Net loss for the period</b>		<b>(5,725)</b>	<b>(2,176)</b>
<b>Other comprehensive (loss) income</b>			
Items that may be reclassified subsequently to profit or loss:			
Foreign exchange (loss) gain		(1,598)	471
<b>Net and comprehensive loss for the period</b>		<b>\$ (7,323)</b>	<b>\$ (1,705)</b>
<b>Basic and diluted net loss per share</b>	17	<b>\$ (0.07)</b>	<b>\$ (0.06)</b>
<b>Weighted average number of common shares outstanding</b>		<b>77,832,373</b>	<b>38,255,232</b>

The accompanying notes are an integral part of these Consolidated Financial Statements.

**Magna Gold Corp.**  
Consolidated Statements of Cash Flows  
(In thousands of United States Dollars)

		Nine months ended December 31,	Restated - Note 3 Year ended March 31,
	Note	2020	2020
<b>Operating activities</b>			
Net loss		\$ (5,725)	\$ (2,176)
Items not affecting cash:			
Share-based compensation	18a)	3,163	28
Depletion and depreciation	8a)	929	-
Finance expenses	8d)	838	-
Income tax expense	19	1,468	-
Change in other provision		(250)	-
Unrealized foreign exchange (gain) loss		(2,271)	481
		<b>(1,848)</b>	<b>(1,667)</b>
Changes in non-cash working capital items:			
Trade and other receivables		(3,804)	(1)
Inventories		4,355	-
Advances and prepaid expenses		(239)	(24)
Trade payables and accrued liabilities		10,908	102
Cash provided by (used in) operating activities		<b>9,372</b>	<b>(1,590)</b>
<b>Investing activities</b>			
Cash acquired in connection with Molimentales	6	1,465	-
Value added tax paid to the seller of Molimentales	6	(570)	-
Expenditures on mineral properties and plant and equipment		(10,160)	(12)
Expenditures on exploration and evaluation		(1,276)	(1,257)
Margarita acquisition		(1,619)	-
Las Marias acquisition		-	(188)
Cash used in investing activities		<b>(12,160)</b>	<b>(1,457)</b>
<b>Financing activities</b>			
Proceeds from private placements, net of transaction costs		6,469	-
Proceeds from Sandstorm agreement, net of transaction costs		2,959	-
Funds released from escrow		-	1,985
Share issuance costs		-	(6)
Exercise of stock options		-	38
Cash provided by financing activities		<b>9,428</b>	<b>2,017</b>
Effects of exchange rate changes on the balance of cash held in foreign currencies		252	(19)
Increase (decrease) in cash		<b>6,892</b>	<b>(1,049)</b>
<b>Cash, beginning of period</b>		<b>164</b>	<b>1,213</b>
<b>Cash, end of period</b>		<b>\$ 7,056</b>	<b>\$ 164</b>

Supplementary disclosure with respect to cash flows (note 20)





## **1. NATURE OF OPERATIONS**

Magna Gold Corp. (the "Company" or "Magna") was incorporated pursuant to the provisions of the Business Corporations Act of Ontario on January 9, 2018. Its shares have been listed on the TSX Venture Exchange (the "Exchange") under the symbol "MGR" since June 10, 2019. In addition, the Company's shares also trade on the OTCQB Venture Market, a U.S. trading platform that is operated by OTC Markets Group in New York, under the symbol "MGLQF". The Company's address is 18 King Street East, Suite 902, Toronto, Ontario, M5C 1C4.

On June 6, 2019, the Company completed its Qualifying Transaction, as defined in Exchange Policy 2.4 - Capital Pool Companies, consisting of the property option agreement dated September 25, 2018, pursuant to which the Company acquired a 100% interest in the Mercedes Property in Yécora, Mexico.

During March 2020, the World Health Organization declared a global pandemic following the emergence of a novel strain of the coronavirus disease, called "COVID-19". This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally. At the date of issuance of these consolidated financial statements of the Company as at December 31, 2020, and for the nine months ended December 31, 2020 (the "Consolidated Financial Statements"), mining operations are considered an essential activity in Mexico, and therefore, mining companies are able to continue operations following the safety protocols established. The Company has not interrupted its mining, crushing and leaching processes and doré shipments to its customers, therefore, Company's management has not identified a material impact on its financial position or results of operations during the nine months ended December 31, 2020, and the period up to the date of issuance of these Consolidated Financial Statements. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or ability to raise funds.

On May 6, 2020, the Company closed the acquisition of Molimentales del Noroeste, S.A. de C.V. ("Molimentales") (note 6), which owns a 100% interest in the San Francisco Mine. The San Francisco Mine is an open-pit heap leach operating mine, located approximately 150 kilometers north of Hermosillo and 120 kilometers south of the United States/Mexico border via Highway 15 (Pan-American Highway). The San Francisco Mine was in residual leaching at the time of the acquisition. Mining and crushing activities restarted late in June 2020.

The Company also holds a portfolio of earlier-stage mineral properties located in Mexico. The Company is in the process of exploring these mineral properties and has not yet determined whether they contain mineral reserves where extraction is both technically feasible and commercially viable.

## **2. GOING CONCERN**

These Consolidated Financial Statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company has incurred operating losses to date and has limited history of revenue from operations and the certainty of funding future operating and exploration expenditures and availability of sources of additional financing cannot be assured at this time; these events and conditions create a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern in the longer term is dependent on successful execution of its business plan and ultimately generating net income and positive cash flow from mining operations. These Consolidated Financial Statements do not include adjustments to the carrying values and classifications of recorded assets and liabilities which could be material that might be necessary should the Company be unable to continue as a going concern.

## **3. BASIS OF PREPARATION**

### **a) Change of year end**

During November 2020, the Company changed its fiscal year end from March 31 to December 31 in order to align the fiscal year-end with that of its Mexican subsidiaries, which are required to have fiscal periods for Mexican tax purposes ending on December 31. As a result of this change, these Consolidated Financial Statements are for the nine months ended December 31, 2020, and amounts presented are not comparable as the comparative period is the year ended March 31, 2020.

### **b) Statement of compliance**

These Consolidated Financial Statements of the Company as at December 31, 2020, and for the nine months ended December 31, 2020 (the "Consolidated Financial Statements"), have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, and with interpretations of the IFRS Interpretations Committee.

**Magna Gold Corp.**

## Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in thousands of United States Dollars, except where noted)

The policies applied in the Consolidated Financial Statements are based on IFRS issued and effective as of April 7, 2021, the date the Board of Directors approved the statements.

**c) Basis of measurement**

The Consolidated Financial Statements have been prepared using the historical cost basis, except for certain financial assets and liabilities, which are measured at fair value, as specified by IFRS as set out in the accounting policies below.

**d) Functional currency and presentation currency**

These Consolidated Financial Statements are presented in United States dollars ("US\$"). This represents a change in accounting policy. Effective April 1, 2020, the Company changed its presentation currency from Canadian Dollars ("C\$") to the US\$. The change in presentation currency is to better reflect the Company's business activities. There has been no change to Magna's functional currency or its subsidiaries' functional currencies. In making this change to the US\$ presentation currency, the Company followed the guidance in IAS 21 *The Effects of Changes in Foreign Exchange Rates* ("IAS 21") and has applied the change retrospectively as if the new presentation currency had always been the Company's presentation currency.

In addition to the comparative financial statements, the Company has presented a third statement of financial position as at April 1, 2019, as required by IFRS upon application of a voluntary change in accounting policy.

**e) Capitalization of exploration and evaluation**

Effective December 31, 2020, the Company has voluntarily adopted a new accounting policy with respect to exploration and evaluation expenditures to reflect the Company's future outlook on its exploration activities. The Company has capitalized exploration and evaluation activities incurred in connection with the exploration and evaluation of mineral resources before technical feasibility and commercial viability of extracting a mineral resource is demonstrable.

The Company has applied the change retrospectively in these Consolidated Financial Statements as if the exploration and evaluation activities have always been capitalized.

In preparing these Consolidated Financial Statements, the Company has adjusted the amounts reported previously while taking into effect the change in presentation currency effective April 1, 2019 (note 3(d)). These changes in policy affected the Company's financial position, financial performance, and cash flows for the year ended March 31, 2020, as shown below:

<b>Consolidated Statement of Financial Position</b>	<b>Previously reported</b>	<b>Effect of changes</b>	<b>Restated</b>
Assets			
Mineral properties, plant and equipment, exploration and evaluation	\$ -	\$ 2,253	\$ 2,253
Current assets	908	(5)	903
Current liabilities	148	2	150
Equity			
Accumulated other comprehensive income (loss)	(148)	513	365
(Deficit) retained earnings	(4,618)	1,733	(2,885)

<b>Consolidated Statement of Loss and Comprehensive Loss</b>	<b>Previously reported</b>	<b>Effect of changes</b>	<b>Restated</b>
Exploration expenses	\$ (2,259)	\$ 2,253	\$ (6)
Foreign exchange loss	(977)	520	(457)
Loss for the year	(3,909)	1,733	(2,176)
Other comprehensive (loss) gain	(42)	513	471
Net and comprehensive loss for the year	\$ (3,951)	\$ 2,246	\$ (1,705)
Basic and diluted net loss per share	\$ (0.10)		\$ (0.06)

The Company continues to expense mining concession payments as these payments are a regulatory requirement with no future economic benefit to the Company. Mining concession payments are expensed in the period they are incurred and are presented in these Consolidated Financial Statements as Exploration Expenses.

**Magna Gold Corp.**

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in thousands of United States Dollars, except where noted)

<b>Consolidated Statement of Cash Flows</b>	<b>Previously reported</b>	<b>Effect of changes</b>	<b>Restated</b>
<b>Operating activities:</b>			
Loss for the period	\$ (3,909)	\$ 1,733	\$ (2,176)
Shares for exploration and evaluation	795	(795)	-
Share-based compensation	28	-	28
Unrealized foreign exchange (gain) loss	(35)	516	481
Changes in non-cash working capital items	74	3	77
<b>Cash used in operating activities</b>	<b>\$ (3,047)</b>	<b>\$ 1,457</b>	<b>\$ (1,590)</b>
<b>Investing activities:</b>			
Expenditures on mineral properties and plant and equipment	\$ -	\$ (12)	\$ (12)
Expenditures on exploration and evaluation	-	(1,257)	(1,257)
Las Marias acquisition	-	(188)	(188)
<b>Cash used in investing activities</b>	<b>\$ -</b>	<b>\$ (1,457)</b>	<b>\$ (1,457)</b>

The change in accounting policy had no effect on the Consolidated Statement of Changes in Equity, other than the changes to deficit and accumulated other comprehensive income (loss), as shown above.

**f) Judgements**

The critical judgements made by management of the Company's in the application of the accounting policies that are presented in note 4 and have the most significant effect on the amounts recognized in these Consolidated Financial Statements are as follows:

*i. Functional currency*

The functional currency for each of the Company's subsidiaries is the currency of the primary economic environment in which the respective entity operates. The Company has determined the functional currency of Magna Gold Corp. and 2660170 Ontario Ltd. is the Canadian dollar and the Mexican Peso for LM Mining Corp, S.A. de C.V. ("LM Mining") and Minera Magna, S.A. de C.V. ("Minera Magna"). The functional currency of Molimentales del Noroeste, S.A. de C.V. was determined to be the US dollar. Such determination involves certain judgements to identify the primary economic environment of each entity. The Company reconsiders the functional currency of each entity if there is a change in events and/or conditions which determine the primary economic environment.

*ii. Liquidity risk related to the Company's operations*

The Company has a budgeting process to determine the funds required to support operating, capital, and exploration expenditures. The Company is managing cash flows to ensure sufficient liquidity. This process is subject to significant estimates and judgements including gold price assumptions, operating performance, and capital project management.

*iii. Assessment of indicators of impairment*

At the end of each reporting period, the Company assesses whether there are any indicators, from external and internal sources of information, that an asset or cash generating unit ("CGU") may be impaired, thereby requiring adjustment to the carrying amount. As of December 31, 2020, there were no indicators of impairment.

*iv. Revenue recognition*Determination of performance obligations

The Company applies judgement to determine if a good or service that is promised to a customer is distinct based on whether the customer can benefit from the good or service on its own or together with other readily available resources and whether the good or service is separately identifiable. Based on these criteria, the Company determined the primary performance obligation relating to its sales contracts is the delivery of gold doré and other metals.

Transfer of control

Judgement is required to determine when transfer of control occurs relating to the sale of the Company's metals to its customers. Management based its assessment on a number of indicators of control, which include, but are not limited to whether the Company has present right of payment, and whether the physical possession of the goods, significant risks and rewards and legal title have been transferred to the customer.

v. *Business combinations versus asset acquisitions*

Business combinations are accounted for using the acquisition method as of the acquisition date, which is the date when control is transferred to the Company. The consideration transferred in a business combination is measured at fair value, calculated as the sum of the acquisition date fair values of the assets transferred, liabilities incurred by the Company, and the equity interests issued by the Company in exchange for control of the acquiree. Transaction costs that the Company incurs in connection with a business combination are recognized in the consolidated statements of loss as incurred.

Goodwill is measured as the excess of the sum of the fair value of the consideration transferred over the net of the amounts of the identifiable assets acquired and the liabilities assumed on the acquisition date.

To identify if an acquisition meets the definition of a business, the Company may apply the optional 'concentration test' to aid the assessment of whether a transaction represents a business combination or is simply in substance the purchase of a single asset or group of similar assets.

Acquisitions that do not meet the definition of a business combination are accounted for as asset acquisitions. Consideration paid for an asset acquisition is allocated to the individual identifiable assets acquired and liabilities assumed based on their relative fair values. Asset acquisitions do not give rise to goodwill.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete.

During this measurement period, if necessary, the Company will retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new 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. During the measurement period, the Company will also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the Company receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable and shall not exceed one year from the acquisition date.

Determination of whether a set of assets acquired and liabilities assumed constitute a business requires the Company to make certain judgements, taking into account all facts and circumstances. A business consists of inputs, including non-current assets and processes, including operational processes, that when applied to those inputs have the ability to create outputs that provide a return to the Company and its shareholders.

**g) Significant estimates and assumptions**

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make estimates based on assumptions about future events, including the potential impacts of COVID-19, that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively in the period in which the estimate is revised.

Areas that require significant estimates and assumptions as the basis for determining the stated amounts include, but are not limited to, the following:

*i. Mineral reserves*

Proven and probable mineral reserves are the economically mineable parts of the Company's measured and indicated mineral resources demonstrated by at least a preliminary feasibility study.

The Company estimates its proven and probable reserves and measured and indicated and inferred mineral resources based on information compiled by appropriately qualified persons.

The information relating to the geological data on the size, depth and shape of the ore body requires complex geological judgements to interpret the data.

The estimation of future cash flows related to proven and probable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements and production costs along with geological assumptions and judgements made in estimating the recovery rate, size and grade of the ore body.

Changes in the proven and probable reserves or measured and indicated and inferred mineral resources estimates may impact the carrying value of mineral properties and plant and equipment (note 11); provision for site reclamation and closure (note 15); recognition of deferred tax assets (note 19); and depreciation and depletion (note 11).

*ii. Depreciation and depletion (note 11)*

Plants and other facilities used directly in mining activities are depreciated using the units-of-production ("UOP") method over a period not to exceed the estimated life of the ore body based on recoverable ounces to be mined from proven and probable reserves. Mobile and other equipment are depreciated, net of residual value, on a straight-line basis, over the useful life of the equipment to the extent that the useful life does not exceed the related estimated life of the mine based on proven and probable reserves.

The calculation of the UOP rate, and therefore the annual depreciation and depletion expense could be materially affected by changes in the underlying estimates. Changes in estimates can be the result of actual future production differing from current forecasts of future production, expansion of mineral reserves through exploration activities, differences between estimated and actual recovery rates and costs of mining and differences in gold price used in the estimation of mineral reserves.

Significant judgement is involved in the estimation of useful life and residual values for the computation of depreciation and depletion and no assurance can be given that actual useful lives and residual values will not differ significantly from current assumptions.

*iii. Deferred stripping costs (note 11)*

In determining whether stripping costs incurred during the production phase of a mining property relate to reserves and resources that will be mined in a future period and therefore should be capitalized, the Company makes estimates of the stripping activity over the life of the mining property and the life of mining phases. Changes in estimated life of mine strip ratios or life of phase strip ratios can result in a change to the future capitalization of stripping costs incurred and future depreciation and depletion charges.

*iv. Inventories (note 10)*

Expenditures incurred, and depreciation and depletion of assets used in mining and processing activities are deferred and accumulated as the cost of ore in process and finished metal inventory. These deferred amounts are carried at the lower of average cost or net realizable value ("NRV") and are subject to significant measurement uncertainty.

Write-downs of ore in process and finished metal inventory resulting from NRV impairments are reported as a component of current period costs. The primary factors that influence the need to record write-downs include prevailing and long-term metal prices and prevailing costs for production inputs such as labour, fuel and energy, materials and supplies, as well as realized ore grades and actual production levels.

Costs are attributed to ore in process based on current mining costs, including applicable depreciation and depletion relating to mining operations incurred up to the point of placing the ore on the leach pad. Costs are removed from ore in process based on the average cost per estimated recoverable ounce of gold on the leach pad as the gold is recovered. Estimates of recoverable gold on the leach pads are calculated from the quantities of ore placed on the pads, the grade of ore placed on the leach pads and an estimated percentage of recovery. Timing and ultimate recovery of gold contained on leach pads can vary significantly from the estimates.

The quantities of recoverable gold placed on the leach pads are reconciled to the quantities of gold actually recovered (metallurgical balancing), by comparing the grades of ore placed on the leach pads to actual ounces recovered. The nature of the leaching process inherently limits the ability to precisely monitor inventory levels. As a result, the metallurgical balancing process is constantly monitored and the engineering estimates are refined based on actual results over time. The ultimate recovery of gold from a leach pad will not be known until the leaching process is completed.

The allocation of costs to ore in process and finished metal inventory and the determination of NRV involve the use of estimates. There is a high degree of judgement in estimating future costs, future production level, gold prices, and the ultimate estimated recovery for ore in process.

*v. Recoverable value of mineral properties, plant and equipment, and exploration and evaluation*

Where an indicator of impairment or impairment reversal exists (note 3(f)(iii)), an estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs of disposal and value in use.

In determining the recoverable amounts of the Company's mineral properties, plant and equipment, and exploration and evaluation, management makes estimates of the discounted future cash flows expected to be derived from the Company's mining properties, costs of disposal of the mining properties and the appropriate discount rate. Reductions or increases in metal price forecasts; estimated future costs of production; estimated future capital expenditures; recoverable reserves and resources; estimated in-situ values; and discount rates can result in an impairment of the carrying amounts of the Company's mineral properties, plant and equipment, and exploration and evaluation.

*vi. Provision for site reclamation and closure (note 15)*

Site reclamation and closure provisions are recognized in the period in which they arise and are stated as the present value of estimated future costs taking into account inflation and discounted at a risk-free rate. These estimates require extensive judgement about the nature, cost and timing of the work to be completed, and may change with future changes to costs, environmental laws and regulations and remediation practices. In view of uncertainties concerning environmental rehabilitation, the ultimate costs could be materially different from the amounts estimated.

It is possible that the Company's estimate of the site reclamation and closure liability could change as a result of change in regulations, the extent of environmental remediation required, the means and technology of reclamation activities or cost estimates. Any such changes could materially impact the estimated provision for site reclamation and closure. Changes in estimates are accounted for prospectively from the period the estimate is revised.

*vii. Current and deferred taxes (note 19)*

The Company's provision for income taxes is estimated based on the expected annual effective tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The current and deferred components of income taxes are estimated based on forecasted movements in temporary differences. Changes to the expected annual effective tax rate and differences between the actual and expected effective tax rate and between actual and forecasted movements in temporary differences will result in adjustments to the Company's provision for income taxes in the period changes are made and/or differences are identified.

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. Forecasted cash flows from operations are based on life of mine projections internally developed and reviewed by management. Weight is attached to tax planning opportunities that are within the Company's control and are feasible and implementable without significant obstacles.

The likelihood that tax positions taken will be sustained upon examination by applicable tax authorities is assessed based on individual facts and circumstances of the relevant tax position evaluated in light of all available evidence.

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Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. At the end of each reporting period, the Company reassesses deferred income tax assets.

**viii. Equity settled share-based compensation (note 18)**

Share-based compensation is measured at fair value. Options and warrants are measured using the Black-Scholes option pricing model based on estimated fair values of all share-based awards at the date of grant or issuance. The Black-Scholes option pricing model utilizes subjective assumptions such as expected price volatility and expected life of the option. Changes in these input assumptions can significantly affect the fair value estimate.

Options are expensed to earnings or loss from operations over each award's vesting period. Warrants in these Consolidated Financial Statements are private placement share issuance costs and are included in equity.

**ix. Contingencies (note 22)**

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.

**x. Fair value estimates**

In business combinations, it generally requires time to obtain the information necessary to identify and measure the following as of the acquisition date:

- i. The fair values of identifiable assets acquired and liabilities assumed;
- ii. The fair value of the consideration transferred in exchange for an interest in the acquiree; and,
- iii. The resulting goodwill, if any.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete.

During the measurement period, the Company will retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new 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. During the measurement period, the Company will also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the Company receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable and shall not exceed one year from the acquisition date.

**4. SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies used in the preparation of these Consolidated Financial Statements are as follows:

**a) Basis of consolidation**

These Consolidated Financial Statements include the assets and operations of Magna Gold Corp. and its subsidiaries Molimentales, 2660170 Ontario Ltd., LM Mining and Minera Magna. All intercompany balances and transactions have been eliminated on consolidation.

Subsidiaries are investees where the Company has exposure to variable returns from its involvement and has the ability to use power over the investee to affect its returns. Subsidiaries are fully consolidated from the date on which control is transferred to the Company until the date on which control ceases.

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**b) Foreign currency translation**

Management has determined the functional currencies of Magna Gold Corp. and 2660170 Ontario Ltd. is the Canadian dollar; the Mexican Peso for LM Mining and Minera Magna; and, the US\$ for Molimentales. All amounts in these Consolidated Financial Statements are presented in US\$. Transactions in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the period end exchange rates are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*, the financial statements for all periods presented have been translated to the US\$ presentation currency as follows:

- i. All assets and liabilities have been translated from their functional currency into the US\$ presentation currency using the closing current exchange rate at the date of each statement of financial position;
- ii. Income and expenses for each statement of loss and comprehensive loss presented have been retranslated at average exchange rates prevailing during each reporting period;
- iii. Equity balances have been retrospectively translated at historical rates prevailing during the period incurred; and,
- iv. All resulting exchange differences have been recognized in equity as cumulative translation reserve.

**c) Cash**

Cash includes cash on deposit with Canadian and Mexican chartered banks.

**d) Revenue**

The Company's primary product is gold. Other metals, such as silver, produced as part of the extraction process are considered to be by-products arising from the production of gold. Revenue relating to the sale of metals is recognized when control of the metal is transferred to the customer in an amount that reflects the consideration the Company expects to receive in exchange for the metal.

When considering whether the Company has satisfied its performance obligation, it considers the indicators of the transfer of control, which include, but are not limited to, whether the Company has a present right to payment; the customer has legal title to the metal; the Company has transferred physical possession of the metal to the customer; and, the customer has the significant risks and rewards of ownership of the metal.

The Company recognizes deferred revenue in the event it receives payments from customers before a sale meets criteria for revenue recognition. There is a significant financing component associated with the Company's royalty agreement arrangement since funds were received in advance of the delivery of gold. When a significant financing component is recognized, finance expense will be higher, and therefore revenues will be higher, as the larger deferred revenue balance is amortized to revenues. At the inception of the royalty agreement arrangement the Company uses prevailing gold prices and forecasts to determine a discount rate for computing the interest charges for the significant financing component of the deferred revenue balance. As gold is delivered, the deferred revenue amount including accreted interest will be drawn down.

**e) Inventories**

The Company predominantly produces gold and silver by-product. Inventories consist of ore in process, finished metal inventory (doré), and operational supplies. Doré represents a bar containing predominantly gold by value which must be refined into its saleable metals.

These inventories are valued at the lower of cost and NRV after consideration of additional processing, refining and transportation costs. NRV represents the estimated future sales price of the product based on prevailing and long-term metals prices, less the estimated costs to complete production and bring the product to saleable form.

Write-downs of inventory are recognized in earnings or loss from operations as incurred. The Company reverses write-downs in the event that there is a subsequent increase in NRV.



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*i. Ore in process*

The recovery of gold and silver from the ore is achieved through heap leaching processes. Costs are added to ore on leach pads based on current mining and processing costs, including applicable overhead, depletion and depreciation relating to mining operations. Costs are removed from ore on leach pads as ounces are recovered, based on the average cost per ounce of recoverable gold in ore in process inventory.

*ii. Finished metal inventory*

Finished metal inventory consists of doré bars containing gold and silver.

*iii. Supplies*

Supplies include consumables used in operations such as fuel, grinding material, chemicals, and spare parts. NRV is estimated as replacement cost.

Major spare parts and standby equipment are included in plant and equipment when they meet the definition of property, plant and equipment.

**f) Mineral properties, plant and equipment, exploration and evaluation***i. Mineral property development costs*

Mineral property development costs are stated at cost less accumulated depletion and accumulated impairment losses. Costs associated with the commissioning of new assets are capitalized as mineral property costs in the period before they are operating in the manner intended by management.

Costs of producing properties are amortized using the UOP method based on estimated proven and probable reserves forecast to be extracted over the life of the mine and the costs of abandoned properties are written off in the period in which that decision is made by management.

Proceeds received on the sale of interests in mineral properties are credited to the carrying value of the mineral properties, with any excess included in earnings or loss as incurred. Write-offs due to impairment in value are charged to earnings or loss as incurred.

In open pit mining operations, it is necessary to remove overburden and other waste in order to access the ore body. Stripping costs incurred prior to commercial production are capitalized and deferred as part of the cost of constructing the mine.

Mining costs associated with stripping activities during the production phase of a mine are variable production costs that are included in the costs of the inventory during the period that the stripping costs are incurred, unless the stripping activity can be shown to represent future benefits to the mineral property, in which case stripping costs are capitalized.

Future benefits to the mineral property are demonstrated when stripping activity results in either immediate usable ore to produce finished gold doré bar inventory or improved access to sources of gold reserves that will be produced in future periods that would otherwise not have been accessible. Stripping activity occurs on separately identifiable components of the open pit and the amount capitalized is calculated by multiplying the tonnes removed for stripping purposes from each identifiable component during the period by the mining cost per tonne.

The Company includes stripping costs in its production costs using a strip ratio based on tonnes of material removed compared to the estimated strip ratio per each separately identifiable component. Periods where the actual strip ratio for the identifiable component exceeded the average life of phase strip ratio for that component resulted in deferral of the excess stripping costs as an asset recorded within mineral properties.

*ii. Plant and equipment*

Plant and equipment is measured at cost less accumulated depreciation and impairment losses. Cost includes the purchase price, any costs directly attributable to bringing plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management and the estimated site reclamation and closure costs associated with removing the asset, and, where applicable, borrowing costs.

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Upon sale or abandonment of any plant and equipment, the cost and related accumulated depreciation and impairment losses are written off and any gains or losses thereon are recognized in earnings or loss for the period. When the parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

The cost of replacing or overhauling a component of an item of plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced component is derecognized. Maintenance and repairs of a routine nature are charged to earnings or loss as incurred.

*iii. Exploration and evaluation costs*

Acquisition costs for exploration and evaluation stage properties are capitalized. Exploration and evaluation expenditures incurred on a mineral property are capitalized where management determines there is sufficient evidence that the expenditure will result in a future economic benefit to the Company. All other exploration and evaluation expenditures are expensed as incurred.

Exploration and evaluation expenditures 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.

Subsequent to completion of a positive economic analysis on a mineral property, capitalized acquisition costs and exploration and evaluation expenditures are reclassified to mineral properties. The Company is in the process of exploring and developing many of its exploration and evaluation properties and has not yet determined the amount of reserves available.

Management reviews the carrying value of exploration and evaluation properties at each reporting date and will recognize impairment in value based upon current exploration results, the prospect of further work being carried out by the Company and the assessment of future probability of profitable revenues from the property, or from the sale of the property. Amounts shown for properties represents costs incurred net of impairments and recoveries.

Exploration and evaluation assets are classified as intangible assets.

*iv. Depletion and depreciation*

Mineral property costs, including deferred stripping costs, are depreciated when commercial production begins using the UOP method based on estimated proven and probable reserves.

Plant and equipment, including major components, are depreciated using the following depreciation methods and rates:

Computer equipment	30% straight line method
Office furniture and equipment	10% straight line method
Vehicles	25% straight line method or straight-line method over expected life
Mine equipment and buildings	UOP method or straight-line method over expected life (2-7 years)
Plant and equipment	UOP method

Depreciation commences on the date the asset is available for use.

**g) Provisions**

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Constructive obligations are obligations that derive from the Company's actions where:

- By an established pattern of past practice, published policies or a sufficiently specific current statement, the Company has indicated to other parties that it will accept certain responsibilities; and,
- As a result, the Company has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

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Provisions are reviewed at the end of each reporting period and adjusted to reflect management's current best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

Provisions are reduced by actual expenditures for which the provision was originally recognized. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The accretion of the discount is charged to earnings or loss for the period.

*Provision for site reclamation and closure*

The Company's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. The Company records the fair value of a provision for site reclamation and closure as a liability in the period in which it has incurred a legal or constructive obligation associated with the reclamation of the mine site and the retirement of tangible long-lived assets that result from the acquisition, construction, development, and/or normal use of the assets.

The obligation is measured initially at present value based on estimated future cash flows derived using internal information and/or third-party reports. The estimated cost is capitalized and included in the carrying value of the related mineral properties and is depreciated using either the straight-line method or UOP method, as appropriate.

The provision is initially discounted using a current market-based pre-tax discount rate and subsequently increased for the unwinding of the discount. The unwinding of the discount is charged to earnings or loss for the period.

At each reporting date, the Company reviews its provision for site reclamation and closure to reflect the current best estimate. The provision for site reclamation and closure is adjusted for changes in factors such as the amount or timing of the expected underlying cash flows, or the market-based pre-tax discount rate, with the offsetting amount recorded to the site reclamation and closure asset included in mineral properties which arises at the time of establishing the provision. The site reclamation and closure asset is depreciated on the same basis as the related asset.

**h) Share-based payments**

The fair value of share options granted to employees, directors, and certain consultants is recognized as an expense over the vesting period with a corresponding increase in equity, included in the share-based payment reserve. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee (consultant). The fair value is measured at the grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest. If and when share options expire unexercised on maturity, the applicable fair value is transferred to deficit.

For non-cash transactions paid by consideration in the form of the Company's common shares, the Company identifies significant events that might affect fair value otherwise based on the TSX-V quoted price. Significant events include substantial trades for cash consideration that are completed concurrently with a significant transaction, and/or announcements that take place after the close of a market but before the measurement date. When the TSX-V quoted price of the Company's common shares on the measurement date does not represent fair value, the quoted price is adjusted and the fair value measurement is categorized within Level 2 or Level 3 of the fair value hierarchy as applicable.

**i) Warrants**

Warrants denominated in the same currency as the functional currency of the Company meet the definition of an equity instrument and are included in the share-based payment reserve. The warrants are fair valued on the issuance date using the Black-Scholes option pricing model. If and when the warrants are exercised, the applicable fair value of the share-based payment reserve is transferred to share capital. Any consideration paid on the exercise of the warrants is credited to share capital. For those warrants that expire unexercised on maturity, the applicable fair value is transferred to deficit.

**j) Issued capital**

Common shares are classified as issued capital. Costs directly attributable to the issue of common shares are recognized as a deduction from issued capital, net of any tax effects.

**k) Financial instruments**

*Recognition*

The Company recognizes a financial asset or financial liability on the consolidated statement of financial position when it becomes party to the contractual provisions of the financial instrument. Financial assets are initially measured at fair value, and are derecognized either when the Company has transferred substantially all the risks and rewards of ownership of the financial asset, or when cash flows expire. Financial liabilities are initially measured at fair value and are derecognized when the obligation specified in the contract is discharged, cancelled or expired.

A write-off of a financial asset (or a portion thereof) constitutes a derecognition event. Write-off occurs when the Company has no reasonable expectations of recovering the contractual cash flows on a financial asset.

*Classification and measurement*

The Company determines the classification of its financial instruments at initial recognition. Financial assets and financial liabilities are classified according to the following measurement categories:

- Those to be measured subsequently at fair value, either through profit or loss ("FVTPL") or through other comprehensive income ("FVTOCI"); and,
- Those to be measured subsequently at amortized cost.

The classification and measurement of financial assets after initial recognition at fair value depends on the business model for managing the financial asset and the contractual terms of the cash flows. Financial assets that are held with a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding, are generally measured at amortized cost at each subsequent reporting period. All other financial assets are measured at their fair values at each subsequent reporting period, with any changes recorded through profit or loss or through other comprehensive income (which designation is made as an irrevocable election at the time of recognition).

After initial recognition at fair value, financial liabilities are classified and measured at either:

- Amortized cost;
- FVTPL, if the Company has made an irrevocable election at the time of recognition, or when required (for items such as instruments held for trading or derivatives); or,
- FVTOCI, when the change in fair value is attributable to changes in the Company's credit risk.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

Transaction costs that are directly attributable to the acquisition or issuance of a financial asset or financial liability classified as subsequently measured at amortized cost or FVTOCI are included in the fair value of the instrument on initial recognition. Transaction costs for financial assets and financial liabilities classified at FVTPL are expensed in earnings or loss.

The Company's financial assets consist of cash, funds held in escrow, and trade receivables and other receivables, with the exception of VAT receivables, which are classified and subsequently measured at amortized cost. The Company's financial liabilities consist of trade payables and accrued liabilities and other payables, which are classified and measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial asset or liability, or where appropriate, a shorter period. Interest expense is reported in net earnings or loss.

The Company does not currently hold any financial instruments designated as FVTOCI.

**l) Financial liabilities and equity**

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

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An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs. Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

On initial recognition, the Company may take an irrevocable election to designate investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value on other comprehensive income. Designation at FVTOCI is not permitted if the equity instrument is held for trading or if it is contingent consideration recognized by an acquirer in a business combination. Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other OCI. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity instrument, instead, it is transferred to retained earnings.

The Company does not currently hold any equity instruments designated as FVTOCI.

From time to time, the Company may enter into gold option contracts whereby the Company sells the right to a third party to purchase a number of the Company's gold ounces at a set price. This may result in a derivative liability on the consolidated statement of financial position if and when the prevailing gold price exceeds the contract exercise price for contracts outstanding and unexercised. Derivative liabilities are designated as FVTPL.

**m) Impairment of financial assets**

The Company assesses all information available, including on a forward-looking basis, the expected credit losses associated with any financial assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition based on all information available, and reasonable and supportable forward-looking information.

**n) Impairment of non-financial assets**

At each reporting date, the Company reviews the carrying amounts of its non-financial assets to determine whether there are any indications of impairment. If any such indication exists such as decreases in metal prices, an increase in operating costs, a decrease in mineable reserves or a change in foreign exchange rate, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. In determining the recoverable amount, the Company also considers the net carrying amount of the asset, the ongoing costs required to maintain and operate the asset, and the use, value and condition of the asset.

Where the asset does not generate cash inflows that are independent with other assets, the Company estimates the recoverable amount of the CGU to which the asset belongs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. This generally results in the Company evaluating its non-financial assets on a property-by-property basis.

The recoverable amount is determined as the higher of fair value less costs of disposal and the asset's value in use. Fair value is determined with reference to discounted estimated future cash flow analysis or to recent transactions involving dispositions of similar properties. In assessing value in use, the estimated future cash flows are discounted to their present value.

The pre-tax discount rate applied to the estimated future cash flows measured on a value in use basis reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

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 a charge to earnings or loss. 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 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 depletion and depreciation) had no impairment loss been recognized for the asset or CGU in prior periods. A reversal of impairment is recognized as a gain in earnings or loss.

**o) Taxes**

*i. Current tax expense*

Current tax is the expected tax payable or receivable on the taxable earnings or loss for the period.

Current tax for each taxable entity in 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 periods.

*ii. Deferred tax expense*

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 tax liabilities are recognized for all taxable temporary differences except where the deferred tax liability arises from the initial recognition of goodwill, or 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 earnings nor taxable earnings or loss.

Deferred tax assets are recognized for all deductible temporary differences, carry forwards of unused tax losses and tax credits, to the extent that it is probable that taxable earnings will be available against which the deductible temporary differences, and the carry forward of unused tax losses can be utilized, except where the deferred tax asset related to the deductible temporary difference 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 earnings nor taxable earnings or loss.

The carrying amounts of deferred tax assets are reviewed at each reporting date and are adjusted to the extent that it is no longer probable that sufficient taxable earnings 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 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 settled or the asset is realized, based on tax rates and tax laws enacted or substantially enacted at the reporting date. Current and deferred tax relating to items recognized directly in equity are recognized in equity and not in earnings or loss.

*iii. Mining taxes and royalties*

Mining taxes and certain royalties are treated and disclosed as current and deferred taxes if they have the characteristics of an income tax. This is considered to be the case when they are imposed under government authority and the amount payable is calculated by reference to a form of net income after adjustment for items comprising temporary differences.

**p) Earnings (loss) and comprehensive earnings (loss) per share**

The Company presents basic and diluted earnings (loss) and basic and diluted comprehensive earnings (loss) per share data for its common shares, calculated by dividing the earnings (loss) and comprehensive earnings (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) and diluted comprehensive earnings (loss) per share is determined by adjusting the earnings (loss) and comprehensive earnings (loss) attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all warrants and options outstanding that may add to the total number of common shares, except where the effect of including that dilutive instruments would be anti-dilutive.

**q) Leases**

In January 2016, the International Accounting Standards Board ("IASB") issued IFRS 16 *Leases* ("IFRS 16" – effective January 1, 2019), replacing IAS 17 *Leases* ("IAS 17"). IFRS 16 provides a single lessee accounting model and requires the lessee to recognize assets and liabilities for all leases on its statement of financial position. At April 1, 2019, the Company adopted IFRS 16 which resulted in no material impact on the Consolidated Financial Statements.

All leases are accounted for by recognizing a right-of-use asset and a lease liability except for:

- Leases of low value assets;
- Leases with a duration of twelve months or less; and,
- Leases to explore for minerals, oil, natural gas, or similar non-regenerative resources.

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Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- Amounts expected to be payable under any residual value guarantee;
- The exercise price of any purchase option granted if it is reasonably certain to exercise that option; and,
- Any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of the termination option being exercised.

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- Lease payments made at or before commencement of the lease;
- Initial direct costs incurred; and,
- The amount of any provision recognized where the Company is contractually required to dismantle, remove or restore the leased asset.

Lease liabilities, on initial measurement, increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made.

Right-of-use assets are amortized on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if this is judged to be shorter than the lease term.

When the Company revises its estimate of the term of any lease, it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases, an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortized over the remaining revised lease term.

**r) New accounting standards adopted***IFRS 3 - Business Combinations ("IFRS 3")*

Amendments to IFRS 3, issued in October 2018, provide clarification on the definition of a business. The amendments permit a simplified assessment to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

The amendments are effective for transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. The adoption of the amendments had no impact on the Company's Consolidated Financial Statements.

*IAS 1 - Presentation of Financial Statements ("IAS 1") and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8")*

Amendments to IAS 1 and IAS 8, issued in October 2018, provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across IFRS.

The amendments are effective for annual periods beginning on or after January 1, 2020, and are required to be applied prospectively. The adoption of the amendments had no impact on the Company's Consolidated Financial Statements.

**5. RECENT ACCOUNTING PRONOUNCEMENTS**

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee ("IFRIC") that are mandatory for accounting periods after December 31, 2020. Pronouncements that are not applicable to the Company have been excluded from this note.

**Magna Gold Corp.**

Notes to Consolidated Financial Statements

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(Expressed in thousands of United States Dollars, except where noted)

The following pronouncement has been issued but is not yet effective and has not been early adopted by the Company. The Company is currently assessing the impact of this standard:

*Amendments to IAS 1 – Presentation of Financial Statements*

Amendments to IAS 1, issued in January 2020, provide a more general approach to the classification of liabilities as current or non-current based on the contractual arrangements in place at the reporting date. In July 2020, the IASB deferred the effective date of the January 2020 amendments to IAS 1 by one year.

The IAS 1 amendments are effective for annual periods beginning on or after January 1, 2023, with early application permitted.

**6. MOLIMENTALES ACQUISITION**

On May 6, 2020 (the “Closing Date”), Magna completed the acquisition of the San Francisco Mine located in Sonora, Mexico (the “Acquisition”) pursuant to a definitive share purchase agreement dated March 5, 2020, as amended on April 24, 2020 (the “Definitive Agreement”), between the Company and Timmins Gold Corp Mexico S.A. de C.V. (“Timmins”), a wholly owned subsidiary of Alio Gold Inc. (“Alio”). Commercial production began at the San Francisco Mine in April 2010 and has continued up until and after the Company’s acquisition of Molimentales during May 2020.

Under the terms of the Definitive Agreement, Magna acquired ownership of Alio’s indirect wholly owned subsidiary, Molimentales del Noroeste, S.A. de C.V., which owns a 100% interest in the San Francisco Mine, in exchange for:

- (i) Issuance to Timmins of 9,740,000 common shares of the Company at their fair value of C\$0.40 (\$0.28) per common share; and,
- (ii) \$5,000 in cash, on or before May 6, 2021. Should the Company not pay this amount the Company will in lieu grant a 1% net smelter return royalty in respect of the San Francisco Mine.

The acquisition of Molimentales was accounted for as a business combination. The purchase price has been allocated to the assets acquired and liabilities assumed based on their fair values as follows:

<b>Amounts recognized May 6, 2020</b>		<b>Preliminary purchase price allocation</b>	<b>Adjustments <sup>(1)</sup></b>	<b>Final purchase price allocation</b>
Purchase price allocation	Note			
Common shares of Magna		\$ 2,758	\$ -	\$ 2,758
\$5,000 cash or 1% Net Smelter Royalty (“NSR”) <sup>(2)</sup>	13	4,671	-	4,671
Working capital difference <sup>(3)</sup>	13	2,499	-	2,499
Value added tax (“VAT”) payable to seller <sup>(4)</sup>		570	-	570
		<b>\$ 10,498</b>	<b>\$ -</b>	<b>\$ 10,498</b>
<b>Purchase price allocation</b>				
Cash		\$ 1,465	\$ -	\$ 1,465
Trade and other receivables		2,954	-	2,954
Inventories		16,259	39	16,298
Advances and prepaid expenses		483	-	483
Mineral properties and plant and equipment	11	5,197	47	5,244
Deferred tax assets		-	2,328	2,328
Intangible assets and goodwill		1,748	(1,748)	-
Trade payables and accrued liabilities		(4,401)	(676)	(5,077)
Other payables	13	(6,940)	-	(6,940)
Other provisions		(1,420)	10	(1,410)
Provision for site reclamation and closure	15	(4,847)	-	(4,847)
<b>Net assets</b>		<b>\$ 10,498</b>	<b>\$ -</b>	<b>\$ 10,498</b>

<sup>(1)</sup> During the final quarter of the nine months ended December 31, 2020, the Company adjusted the fair values of certain assets acquired and liabilities assumed in the acquisition. In particular, fair values were adjusted related to recognized deferred income tax assets and current tax payables.

<sup>(2)</sup> The \$5,000 was discounted over a one-year period using a rate of 6.86%.



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**Magna Gold Corp.**

## Notes to Consolidated Financial Statements

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- (3) On May 6, 2020, the working capital of Molimentales exceeded the target working capital as defined within the Definitive Agreement. The Company is required to pay Timmins the base cash amount plus such surplus amount (the "Working Capital Difference") in one installment on or before the one-year anniversary of the Closing Date. The undiscounted Working Capital Difference was determined and agreed between both parties to be \$2,675 at May 6, 2020. The \$2,675 was discounted over a one-year period using a rate of 6.86%.
- (4) During June 2020, per the Definitive Agreement, the Company paid \$570 to Timmins relating to January and February 2020 value added tax recoverable that was received by the Company after the Closing Date.

Transaction costs related to the Molimentales Acquisition were \$681 for the nine months ended December 31, 2020 (year ended March 31, 2020 - \$nil).

Financial and operating results of Molimentales are included in the Company's Consolidated Financial Statements effective May 6, 2020. During the nine months ended December 31, 2020, the acquisition of Molimentales contributed revenues of \$37,047 and net loss and comprehensive loss of \$1,151.

Had the business combination been in effect on April 1, 2020, revenues for the nine months ended December 31, 2020, would have been \$38,433 and net loss would have been \$6,693.

**7. MARGARITA ACQUISITION**

Effective November 17, 2020, the Company and Molimentales (the "Purchaser") closed the acquisition (the "Margarita Acquisition") of the option (the "Option") to acquire a 100% undivided interest in the mining concessions comprising the Margarita Silver Project ("Margarita" or the "Margarita Project") pursuant to a definitive option acquisition agreement (the "Agreement") with Sable Resources Ltd. ("Sable") and Exploraciones Sable, S. de R.L. de C.V. (the "Vendor"), a wholly-owned subsidiary of Sable.

Margarita is comprised of two mining concessions, covering 125.625 hectares, located within the Sierra Madre Gold Belt, 88 kilometers south of the state capital of Chihuahua in the Municipality of Satevo, State of Chihuahua, Mexico.

Pursuant to the terms of the Agreement, the Purchaser acquired the Option in exchange for:

- (i) 3,219,278 common shares of the Company at their fair value of \$2,877 issued at C\$1.17 (\$0.89) per common share;
- (ii) \$1,165 in cash; and,
- (iii) \$621 in cash representing Mexican VAT on the full consideration of the Margarita Acquisition.

Immediately following the Margarita Acquisition, the Purchaser exercised the Option to acquire Margarita (the "Option Exercise") by payment to the titleholders of Margarita of:

- (i) 1,655,629 common shares of the Company at their fair value of \$1,480 issued at C\$1.17 (\$0.89) per common share;
- (ii) \$388 in cash; and,
- (iii) \$286 in cash representing Mexican VAT on the full consideration of the Option Exercise.

In addition, the Company paid \$40 to the landowner of the property in relation to a prior contractual arrangement between the landowner and the titleholders of Margarita.

Total VAT of \$907 is fully refundable from the Mexican tax authority. This amount is included in trade and other receivables (note 9) and was refunded after December 31, 2020.

During the nine months ended December 31, 2020, legal and other transaction costs related to the Margarita Acquisition were \$124.

The Margarita Acquisition does not meet the definition of a business combination and therefore was accounted for as an asset acquisition. The acquisition and exercise of the Option, landowner payment, and related transaction costs, are included in these Consolidated Financial Statements as an exploration and evaluation asset (note 11).

Concurrent with the Option Exercise, in accordance with the terms of an amended and restated royalty purchase agreement dated October 13, 2020, between Osisko Gold Royalties Ltd ("Osisko"), Sable, the Vendor and certain affiliates of Sable and the Vendor, the Purchaser entered into a royalty agreement with Osisko, pursuant to which the Purchaser will pay Osisko a 2% net smelter returns royalty on all products mined and produced from Margarita.

**8. EXPENSES**

**a) Cost of sales**

	Nine months ended December 31, 2020	Year ended March 31, 2020
Costs of mining	\$ 10,148	\$ -
Crushing and gold recovery costs	16,904	-
Mine site administration costs	2,473	-
Transport and refining	127	-
Royalties	176	-
Change in inventories	4,371	-
Production costs	34,199	-
Depreciation and depletion	929	-
<b>Cost of sales</b>	<b>\$ 35,128</b>	<b>\$ -</b>

**b) Corporate and administrative expenses**

	Nine months ended December 31, 2020	Year ended March 31, 2020
Consulting and professional fees	\$ 1,207	\$ 434
Salaries	1,067	441
VAT expense	330	332
Business development	308	136
Administrative and other	149	145
Investigation costs	93	128
Reporting issuer costs	82	69
Rent and office costs	62	-
<b>Corporate and administrative expenses</b>	<b>\$ 3,298</b>	<b>\$ 1,685</b>

**c) Exploration expenses**

	Nine months ended December 31, 2020	Restated - Note 3 Year ended March 31, 2020
San Francisco Mine and regional concessions	\$ 313	\$ -
San Judas Project	47	-
La Pima Project	38	-
Los Muertos Project	31	-
Las Marias Property	24	-
Mercedes Property	6	6
<b>Exploration expenses</b>	<b>\$ 459</b>	<b>\$ 6</b>

**d) Finance expenses**

	Note	Nine months ended December 31, 2020	Year ended March 31, 2020
Accretion on other payables	13	\$ 492	\$ -
Accretion on Sandstorm deferred revenue	14	95	-
Accretion on provision for site reclamation and closure	15	211	-
Accretion on other provisions		40	-
<b>Finance expenses</b>		<b>\$ 838</b>	<b>\$ -</b>

**9. TRADE AND OTHER RECEIVABLES**

	December 31, 2020	March 31, 2020	April 1, 2019
Trade receivable	\$ 349	\$ -	\$ -
VAT receivable <sup>(1)</sup>	7,109	5	-
Other receivables	121	-	4
	<b>\$ 7,579</b>	<b>\$ 5</b>	<b>\$ 4</b>

<sup>(1)</sup> VAT receivable is value added tax payments made by the Company, which in Mexico and Canada are refundable. Mexican VAT refunds are typically expected within two to three months after the associated monthly filing with the Mexican tax authority, whereas Canadian VAT refunds are expected within one to two months after each quarterly filing to the Canadian tax authority.

**10. INVENTORIES**

	December 31, 2020	March 31, 2020	April 1, 2019
Ore in process	\$ 8,566	\$ -	-
Finished metal inventory	1,375	-	-
Supplies	1,941	-	-
	<b>\$ 11,882</b>	<b>\$ -</b>	<b>-</b>

**11. MINERAL PROPERTIES, PLANT AND EQUIPMENT, AND EXPLORATION AND EVALUATION**

	Note	Mineral properties <sup>(1)</sup>	Plant and equipment	Exploration and evaluation	Total
<b>Cost</b>					
At March 31, 2020		\$ -	\$ 14	\$ 2,240	\$ 2,254
Acquisitions	6,7	3,852	1,392	6,073	11,317
Additions		10,013	1,987	1,297	13,297
Asset retirement obligation remeasurement		509	-	-	509
<b>At December 31, 2020</b>		<b>14,374</b>	<b>3,393</b>	<b>9,610</b>	<b>27,377</b>
<b>Accumulated depreciation</b>					
At March 31, 2020		-	1	-	1
Depreciation and depletion		847	58	-	905
<b>At December 31, 2020</b>		<b>847</b>	<b>59</b>	<b>-</b>	<b>906</b>
<b>Carrying amount at December 31, 2020</b>		<b>\$ 13,527</b>	<b>\$ 3,334</b>	<b>\$ 9,610</b>	<b>\$ 26,471</b>

<sup>(1)</sup> At December 31, 2020, mineral properties included deferred stripping costs with a carrying amount of \$7,739 (March 31, 2020 - \$nil) and underground development costs of \$1,502 (March 31, 2020 - \$nil).

	Plant and equipment	Exploration and evaluation	Total
Restated - Note 3			
Cost			
At April 1, 2019	\$ -	\$ -	-
Acquisitions	2	983	985
Additions	12	1,257	1,269
At March 31, 2020	14	2,240	2,254
Accumulated depreciation			
At April 1, 2019	-	-	-
Depreciation and depletion	1	-	1
At March 31, 2020	1	-	1
<b>Carrying amount at March 31, 2020</b>	<b>\$ 13</b>	<b>\$ 2,240</b>	<b>\$ 2,253</b>

**Magna Gold Corp.**

## Notes to Consolidated Financial Statements

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All non-current assets are located in Mexico.

*Mineral properties*

The San Francisco Mine is located in Santa Ana, Sonora, Mexico, which is formed by several adjacent claims. Commercial production began at the San Francisco Mine in April 2010 and has continued up until and after the Company's acquisition of Molimentales during May 2020.

*Exploration and evaluation*

The Company is in the exploration stage with respect to its investment in the Mercedes Property, the Las Marias Property, the San Judas Project, Los Muertos Project, Cuproros Project, Margarita Project, and the La Pima Project. Through the Molimentales Acquisition (note 6), in addition to the San Francisco Mine, the Company acquired title to the Patricia, Norma, Los Carlos, La Pima, TMC, and Dulce claims located in the state of Sonora, Mexico. Through the Margarita Acquisition (note 7), the Company acquired the Margarita Project consisting of two mining concessions located in the state of Chihuahua, Mexico.

The Company capitalizes all costs relating to the acquisition and exploration of mineral rights with the exception of concession payments. Such costs include, among others, option payments, geological, geophysical studies, exploratory drilling and sampling, feasibility studies and technical reports. Exploration and evaluation balances are as follows:

	Restated - Note 3		
	December 31, 2020	March 31, 2020	April 1, 2019
Margarita Project	\$ 6,077	\$ -	\$ -
Mercedes Property	2,275	1,629	-
La Pima Project	481	-	-
Las Marias Property	410	410	-
San Judas Project	292	201	-
Los Muertos Project	44	-	-
Cuproros Project	31	-	-
	\$ 9,610	\$ 2,240	\$ -

*Margarita Project*

On November 17, 2020, the Company closed the Margarita Acquisition (note 7). Margarita is comprised of two mining concessions, covering 125.625 hectares, located within the Sierra Madre Gold Belt, 88 kilometers south of the state capital of Chihuahua in the Municipality of Satevo, State of Chihuahua, Mexico.

*Mercedes Property*

On June 6, 2019, the Company completed its qualifying transaction consisting of an option agreement dated September 25, 2018, pursuant to which the Company acquired an option to acquire a 100% undivided interest in two mining claims (the "Mercedes Property") located in the municipality of Yécora, Sonora, Mexico, for a four-year period. The Mercedes Property consists of two contiguous claims covering an aggregate area of approximately 345 hectares located approximately 250 kilometers east-southeast along the Federal Highway 16 from the state capital, Hermosillo.

In consideration of the grant of the option agreement, Magna will: (i) pay to the optionor an aggregate of \$1,340 plus VAT of 16%, paid in installments up to forty-eight months from the Effective Date, with the last instalment being \$750; (ii) issue to the optionor a 3% net smelter return royalty, capped at \$3,500 and subject to the right of the Company to acquire all 3% of the NSR at a price of \$500 per percentage point, within the first three years of commercial production of the Mercedes Property; and (iii) issue 2,442,105 common shares valued at \$584. The common shares were issued on June 6, 2019.

As at December 31, 2020, the Company has paid \$230 of the \$1,340 option installments.

*La Pima Project*

On May 6, 2020, through the acquisition of Molimentales, the Company acquired the La Pima Project ("La Pima") located in the state of Sonora, Mexico. La Pima is an early-stage exploration project which is located approximately 25 kilometers north of the San Francisco Mine.

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*Las Marias Property*

On August 16, 2019, the Company closed the acquisition of 2660170 Ontario Ltd. and its 99% owned subsidiary LM Mining. LM Mining holds the Las Marias Property, which consists of seven mining concessions covering 646 hectares adjacent to the Mercedes Property and the Las Cabanas mineral claims ("Las Cabanas Property" and together with the Las Marias Property the "Claims"), which consists of two claims covering 248 hectares located approximately 10 km south-west of the Mercedes Property. The total consideration for the Claims consisted of 1,000,000 common shares valued at \$210 and cash of \$188.

*San Judas Project*

On December 17, 2019, the Company entered into an exploration and option agreement for a 100% undivided interest in two mining claims (the "San Judas Project") for a five-year period. The San Judas Project consists of two contiguous claims covering an aggregate area of approximately 2,806 hectares located approximately 240 kilometers north-west along the Federal Highway 16 from the state capital, Hermosillo. In consideration, the Company shall (i) pay to the optionors of the San Judas Project an aggregate of \$1,680 plus VAT of 16% paid in annual installments commencing on the December 17, 2019, and ending on the sixtieth month thereafter; and (ii) issue to the optionors a 1.5% NSR, capped at \$1,500, and subject to the right of the Company to acquire all 1.5% of the NSR, at a price of \$500 per 0.5% of the NSR, at any time.

As at December 31, 2020, the Company has paid \$50 of the \$1,680 option installments.

*Los Muertos Project*

On August 3, 2020, the Company entered into an option agreement to acquire a 100% undivided interest in the Los Muertos Project located in the municipality of La Colorada, Sonora, Mexico. The Los Muertos silver-gold properties comprised of two claims (Los Muertos concession and Los Muertos 1 concession), covering 1,756 hectares.

Under the terms of the option agreement the Company can earn a 100% undivided interest in the Los Muertos Project by paying an aggregate amount of \$425 plus VAT of 16% in five annual installments commencing on the effective date of the option agreement, August 3, 2020, and ending forty-eight months thereafter.

As at December 31, 2020, the Company has paid \$25 of the \$425 option installments.

*Cuproros Project*

On September 8, 2020, the Company entered into an exploration and option agreement to acquire an option for a 100% undivided interest in three mining claims (the "Cuproros Project") for a four-year period. The Cuproros Project consists of three contiguous claims covering an aggregate area of approximately 196 hectares located approximately 150 kilometers east from the Sonora state capital, Hermosillo. In consideration of the grant of the option, the Company shall pay to the optionors of the Cuproros Project an aggregate of \$480 plus VAT of 16%, paid in installments commencing on the effective date of the exploration and option agreement and ending forty-eight months thereafter.

As at December 31, 2020, the Company has paid \$30 of the \$480 option installments.

**12. TRADE PAYABLES AND ACCRUED LIABILITIES**

	December 31, 2020		March 31, 2020		April 1, 2019
Trade payables <sup>(1)</sup>	\$ 13,468	\$	28	\$	56
Accrued taxes	586		45		-
Accrued liabilities	971		77		13
Advances	1,149		-		-
Vendor loan <sup>(2)</sup>	1,725		-		-
	<b>\$ 17,899</b>	\$	150	\$	69

<sup>(1)</sup> \$1,916 relates to investing activities (note 20).

<sup>(2)</sup> Molimentales is party to an ongoing amparo suit with respect to an amount of \$1,725.

**Magna Gold Corp.**

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**13. OTHER PAYABLES**

	Note	December 31, 2020	March 31, 2020	April 1, 2019
\$5,000 or San Francisco Mine NSR	6	\$ 4,884	\$ -	\$ -
Working capital difference	6	2,613	-	-
Peal settlement	6	3,788	-	-
Mercedes Property payable to landowner		-	-	5
		\$ 11,285	\$ -	\$ 5

In relation to the Molimentales Acquisition (note 6), the Company recognized the following liabilities:

- The Company agreed to pay Timmins \$5,000 in cash on or before May 6, 2021. Should the Company not pay this amount the Company will in lieu grant a 1% net smelter return royalty in respect of the San Francisco Mine. The \$5,000 was discounted over a one-year period using a rate of 6.86% to determine a discounted payable of \$4,671 on May 6, 2020. During the nine months ended December 31, 2020, accretion expense was \$213.
- The Company agreed to pay Timmins \$2,675 in cash in respect of Working Capital Difference available on the Closing Date of the Acquisition due on or before May 6, 2021. The \$2,675 was discounted over a one-year period using a rate of 6.86% to determine a discounted payable of \$2,499 on May 6, 2020. During the nine months ended December 31, 2020, accretion related to the obligation was \$114.
- Concurrently with the Acquisition, the Company signed a binding letter of intent on April 6, 2020, with Peal de Mexico, S.A. de C.V. ("Peal"), the mining contractor for the San Francisco Mine, to settle pre-existing arbitration proceedings between Peal and Molimentales for aggregate consideration of \$6,355 plus VAT of 16%. This amount is to be satisfied by (1) the issuance of 11,000,000 common shares at the settlement amount of \$2,860 and (2) undiscounted cash flows of \$3,495 plus VAT of 16% to be paid in cash within a period of eighteen months from the date of the final settlement agreement.

On June 30, 2020, the Company finalized the settlement agreement and issued 11,000,000 common shares to Peal valued at \$2,860. VAT of \$457 was paid in cash during the nine months ended December 31, 2020. The Company recognized an undiscounted liability of \$2,860 at May 6, 2020, as the \$2,860 in common shares was payable immediately upon finalization of the settlement agreement.

The \$3,495 plus VAT of 16%, a total of \$4,054, was discounted over an eighteen-month period using a discount rate of 6.86% to determine a discounted payable of \$3,623 on May 6, 2020. During the nine months ended December 31, 2020, accretion related to the obligation was \$165.

**14. SANDSTORM DEFERRED REVENUE**

Advance consideration received	\$	3,000
Accretion on financing component		95
	\$	<b>3,095</b>
Current portion	\$	632
Non-current portion	\$	2,463
<b>Balance at December 31, 2020</b>	<b>\$</b>	<b>3,095</b>

During November 2020, the Company, through its subsidiaries, Molimentales and Minera Magna, and SA Targeted Investing Corp., a subsidiary of Sandstorm Gold Ltd. ("Sandstorm") completed a royalty agreement arrangement (the "Sandstorm Agreement") whereby, the Company received \$3,000 in exchange for:

- Gold Delivery. Commencing November 2020 and for the first twelve months, the Company will deliver 50 gold ounces per month to Sandstorm, and from the thirteenth to forty-eighth month thereafter, deliver 75 gold ounces per month; and,
- Net Smelter Royalty. Commencing on the forty-ninth month, the Company will pay to Sandstorm a 1% NSR on each of the following mining concessions: San Francisco, Patricia, Norma, La Pima, Dulce, and San Judas. At the option of the Company, 0.5% of each NSR can be bought back for \$1,000 on the San Francisco mining concession, and \$500 each on the other concessions, all subject to a 10% annual escalation, compounded annually.

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The Company has recognized the Gold Delivery portion of the Sandstorm Agreement as deferred revenue ("Sandstorm deferred revenue") and will recognize into revenue as monthly gold delivery obligations are met over the forty-eight month period. The deferred revenue consists of \$3,000 cash received and a financing component determined as the difference between the advance received and prevailing gold prices.

Accretion expense on the Sandstorm deferred revenue financing component is recognized at the end of each reporting period. During the nine months ended December 31, 2020, the Company had accretion expense of \$95 (year ended March 31, 2020 - \$nil).

Revenue is recognized at the time of delivery and is subject to a 10% withholding tax.

Transaction costs related to the Sandstorm Agreement for the nine months ended December 31, 2020, were \$132 (year ended March 31, 2020 - \$nil) and are included in consulting and professional fees.

The Company will recognize the NSR portion of the Sandstorm Agreement at the time the royalty is paid. No royalty liability related to the Sandstorm Agreement was recognized in these Consolidated Financial Statements at December 31, 2020.

**15. PROVISION FOR SITE RECLAMATION AND CLOSURE AND OTHER PROVISIONS***Provision for site reclamation and closure*

Opening, March 31, 2020	\$	-
Molimentales acquisition (note 6)		4,847
Accretion		211
Remeasurement		509
<b>Balance at December 31, 2020</b>	<b>\$</b>	<b>5,567</b>

The provision for site reclamation and closure consists of mine closure costs, reclamation and retirement obligations for mine facilities and infrastructure.

The total undiscounted amount of estimated cash flows required to settle the retirement obligations of the San Francisco Mine as at December 31, 2020, is \$6,277 (March 31, 2020 - \$nil).

The cash flows have been inflated by a rate of 3.50% (March 31, 2020 - nil%) and discounted using a rate of 5.25% (March 31, 2020 - nil%).

*Other provisions*

Opening, March 31, 2020	\$	-
Molimentales acquisition (note 6)		1,410
Accretion		40
Remeasurement		(250)
<b>Balance at December 31, 2020</b>	<b>\$</b>	<b>1,200</b>

Other provisions are the demobilization costs related to the mining contractor, whereby the Company is responsible for demobilization costs payable one month prior to the end of the mining contract.

The total undiscounted amount of estimated cash flows required to settle the other provisions at December 31, 2020, is \$1,732 (March 31, 2020 - \$nil).

The cash flows for other provisions have been discounted using a rate of 5.25% (March 31, 2020 - nil%).

**Magna Gold Corp.**

Notes to Consolidated Financial Statements

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**16. ISSUED CAPITAL***Authorized share capital*

At December 31, 2020, and March 31, 2020, the authorized share capital consisted of an unlimited number of common shares. The common shares do not have a par value. All issued shares are fully paid.

*Common shares issued and outstanding*

	Number	Amount
Balance, March 31, 2020	39,204,791	\$ 4,805
Shares issued for Molimentales acquisition <sup>(1)</sup>	10,769,999	3,049
Private placements, net of share issuance costs <sup>(2)(3)</sup>	23,583,116	6,214
Shares issued to Peal <sup>(4)</sup>	11,000,000	2,860
Shares issued for Margarita acquisition <sup>(5)</sup>	4,874,907	4,357
<b>Balance, December 31, 2020</b>	<b>89,432,813</b>	<b>\$ 21,285</b>

- <sup>(1)</sup> On May 6, 2020, Magna closed the acquisition of the San Francisco Mine located in Sonora, Mexico (note 6). As part of the consideration, the Company issued 9,740,000 common shares of the Company at their fair value of C\$0.40 (\$0.28) per common share.

Medalist Capital Ltd. and Trinity Advisors Corporation received advisory fees consisting of \$170 in cash and issuance of an aggregate of 1,029,999 common shares at their fair value of C\$0.40 (\$0.28) per common share.

- <sup>(2)</sup> On May 6, 2020, Magna closed a non-brokered private placement consisting of 5,714,286 common shares (the "May 2020 Offered Shares") at a price of C\$0.35 (\$0.25) per share for aggregate gross proceeds of C\$2,000 (\$1,416). In connection with the private placement, the Company:
- (i) Paid C\$28 (\$20) in cash finder's fees to Canaccord Genuity Corp. and issued 34,260 common shares to Medalist Capital Ltd. at their fair value of C\$0.35 (\$0.25) per common share in lieu of cash finder's fees, representing 6% of the gross proceeds of the May 2020 Offered Shares that were sold to subscribers introduced by such parties; and,
  - (ii) Issued an aggregate of 96,185 non-transferable warrants (note 18(b)) to Canaccord Genuity Corp. and Medalist Capital Ltd., representing 5% of the May 2020 Offered Shares that were sold to subscribers introduced by such parties.

Arturo Bonillas, an officer and director of the Company subscribed for 285,714 May 2020 Offered Shares under the Private Placement under the same terms as arm's length investors.

Share issuance costs related to the May 6, 2020, private placement were \$119.

- <sup>(3)</sup> On June 1, 2020, Magna closed a non-brokered private placement consisting of 17,075,000 common shares (the "June 2020 Offered Shares") at a price of C\$0.41 (\$0.30) per share for aggregate gross proceeds of C\$7,001 (\$5,180). In connection with the private placement, the Company:
- (i) Issued an aggregate of 759,570 common shares to Canaccord Genuity Corp. and Medalist Capital Ltd. at their fair value of C\$0.41 (\$0.30) per common share in lieu of cash finder's fees, representing 6% of the gross proceeds of the June 2020 Offered Shares that were sold to subscribers introduced by such parties; and,
  - (ii) Issued an aggregate of 632,975 non-transferable warrants (note 18(b)) to Canaccord Genuity Corp. and Medalist Capital Ltd., representing 5% of the June 2020 Offered Shares that were sold to subscribers introduced by such parties.

Share issuance costs related to the June 1, 2020, private placement were \$502.

- <sup>(4)</sup> On June 30, 2020, in connection to a debt and payment agreement with Peal (note 13), the mining contractor for the San Francisco Mine, the Company issued 11,000,000 common shares in settlement of liabilities of \$2,860.
- <sup>(5)</sup> On November 17, 2020, the Company closed the acquisition of the Margarita Project (note 7). In connection with the Margarita Acquisition, the Company:
- (i) Issued 3,219,278 common shares to Sable Resources Ltd. at their fair value of C\$3,767 (\$2,877); and,



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(ii) Issued 1,655,629 common shares to the titleholders of Margarita at their fair value of C\$1,937 (\$1,480).

	Number	Amount
Balance, March 31, 2019	35,413,184	\$ 3,932
Shares issued for properties, net of share issuance costs <sup>(6)</sup>	2,442,105	578
Shares issued for acquisition <sup>(7)</sup>	1,000,000	210
Shares issued on option exercise	250,000	66
Shares issued for services	99,502	19
<b>Balance, March 31, 2020</b>	<b>39,204,791</b>	<b>\$ 4,805</b>

<sup>(6)</sup> On June 6, 2019, the Company completed its qualifying transaction consisting of an arm's length option agreement dated September 25, 2018, pursuant to which the Company obtained an option to acquire a 100% undivided interest in two mining claims, the Mercedes Property (note 11). In consideration of the grant of the option agreement, Magna issued 2,442,105 common shares valued at \$584 with transaction costs of \$6.

<sup>(7)</sup> On August 16, 2019, the Company closed the acquisition of 2660170 Ontario Ltd. and its 99% owned subsidiary LM Mining. In consideration of the acquisition, the Company issued 1,000,000 common shares valued at \$210 (note 11).

**17. LOSS PER SHARE**

	Nine months ended December 31, 2020			Year ended March 31, 2020		
	Loss for the period	Weighted average shares outstanding	Loss per share	Loss for the period	Weighted average shares outstanding	Loss per share
<b>Basic LPS</b>	<b>\$ (5,725)</b>	<b>77,832,373</b>	<b>\$ (0.07)</b>	<b>\$ (2,176)</b>	<b>38,255,232</b>	<b>\$ (0.06)</b>
Effect of dilutive securities:						
Stock options	-	-	-	-	-	-
Warrants	-	-	-	-	-	-
<b>Diluted LPS</b>	<b>\$ (5,725)</b>	<b>77,832,373</b>	<b>\$ (0.07)</b>	<b>\$ (2,176)</b>	<b>38,255,232</b>	<b>\$ (0.06)</b>

At December 31, 2020, 4,800,000 (March 31, 2020 - 200,000) stock options were outstanding, all of which were anti-dilutive.

At December 31, 2020, 729,160 (March 31, 2020 - nil) warrants were outstanding, all of which were anti-dilutive.

**18. SHARE-BASED PAYMENT RESERVE**a) *Stock options*

On August 12, 2020, the Board of Directors approved the adoption of a new 10% rolling stock option plan (the "Plan") to replace the Company's fixed stock option plan. The Plan was subject to, and subsequently received, the approval of the shareholders of the Company at the annual and special meeting of shareholders held on September 15, 2020, in accordance with the policies of the TSX Venture Exchange, and was subject to, and subsequently received, the final acceptance of the TSX Venture Exchange.

Under the new Plan, the Board of Directors of the Company may from time to time, in its discretion, grant to directors, officers, employees and consultants of the Company non-transferable options to purchase common shares. The maximum number of common shares reserved for issuance under the Stock Option Plan shall not exceed 10% of the issued and outstanding common shares of the Company. The options will be exercisable for a period of up to ten years. In addition, the number of common shares reserved for issuance to any one person shall not exceed five percent of the issued and outstanding common shares and the number of common shares reserved for issuance to any one consultant will not exceed two percent of the issued and outstanding common shares. The Board of Directors will determine the price per common share and the number of common shares which may be allocated to each director, officer, employee and consultant and all other terms and conditions of the option, subject to the rules of TSX Venture Exchange.

The following table reflects the continuity of stock options for the periods indicated:

	Number of stock options	Weighted average exercise price (\$ CAD)
Outstanding at April 1, 2019	200,000	0.10
Granted	250,000	0.20
Exercised <sup>(1)</sup>	(250,000)	0.20
Outstanding at March 31, 2020	200,000	0.10
Granted <sup>(2)(3)</sup>	4,600,000	1.26
<b>Outstanding and exercisable at December 31, 2020</b>	<b>4,800,000</b>	<b>1.21</b>

<sup>(1)</sup> On September 9, 2019, the options holder provided notice of exercise and on September 13, 2019, the underlying shares were issued. The share price on the date of exercise closed at C\$0.34.

<sup>(2)</sup> On June 29, 2020, the Company granted options to certain directors, officers, employees, and consultants to purchase 2,250,000 common shares. The options are exercisable at C\$0.98 per share and expire on June 29, 2025. The options vest immediately. The fair value of each option granted has been estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: (i) dividend yield 0%; (ii) expected volatility of 100%; (iii) risk-free interest rate of 0.36%; (iv) expected life of 5 years; (v) underlying grant date closing stock price on the TSX Venture Exchange of \$C1.16 per common share outstanding; and (vi) assumption of nil forfeiture rate. The fair value was C\$1,984 (\$1,450). The grant date fair value of the options issued was C\$0.882 (\$0.645) per option.

<sup>(3)</sup> On August 12, 2020, the Company granted options to certain directors, officers, employees, and consultants to purchase 2,350,000 common shares. The options are exercisable at C\$1.53 per share and expire on August 12, 2025. The options vest immediately. The fair value of each option granted has been estimated at the date of shareholder approval on September 15, 2020, using the Black-Scholes option pricing model with the following assumptions: (i) dividend yield 0%; (ii) expected volatility of 100%; (iii) risk-free interest rate of 0.36%; (iv) expected life of 4.9 years; (v) underlying grant date closing stock price on the TSX Venture Exchange of \$C1.34 per common share outstanding; and (vi) assumption of nil forfeiture rate. The fair value was determined to be C\$2,256 (\$1,713). The grant date fair value of the options issued was C\$0.960 (\$0.729) per option.

During the nine months ended December 31, 2020, \$3,163 was expensed as share-based compensation (year ended March 31, 2020, \$28).

The following table reflects the stock options outstanding and exercisable as at December 31, 2020:

Expiry date	Number of options outstanding and exercisable	Weighted average exercise price (C\$)	Weighted average remaining life of options (years)
August 15, 2023	200,000	0.10	2.62
June 29, 2025	2,250,000	0.98	4.50
August 12, 2025	2,350,000	1.53	4.62
	<b>4,800,000</b>	<b>1.21</b>	<b>4.48</b>

b) *Warrants*

	Number of warrants	Issuance date fair value
Balance at April 1, 2019	-	\$ -
Balance at March 31, 2020	-	-
Issued <sup>(1)(2)</sup>	729,160	255
<b>Balance at December 31, 2020</b>	<b>729,160</b>	<b>\$ 255</b>

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- (1) On May 6, 2020, in connection with a non-brokered private placement (note 16) the Company issued 96,185 non-transferable warrants to Canaccord Genuity Corp. and Medalist Capital Ltd., with each warrant being exercisable for one common share at a price of C\$0.35 per warrant until May 6, 2022. The fair value of each warrant issued was estimated at the date of issuance using the Black-Scholes option pricing model with the following assumptions: (i) dividend yield 0%; (ii) expected volatility of 100%; (iii) risk-free interest rate of 0.30%; and (iv) expected life of 2 years. The Company assumed no forfeiture rate. The issuance date fair value was determined to be C\$26 (\$19).
- (2) On June 1, 2020, in connection with a non-brokered private placement (note 16) the Company issued 632,975 non-transferable warrants to Canaccord Genuity Corp. and Medalist Capital Ltd., with each warrant being exercisable for one common share at a price of C\$0.41 per warrant until June 1, 2022. The fair value of each warrant issued was estimated at the date of issuance using the Black-Scholes option pricing model with the following assumptions: (i) dividend yield 0%; (ii) expected volatility of 100%; (iii) risk-free interest rate of 0.39%; and (iv) expected life of 2 years. The Company assumed no forfeiture rate. The issuance date fair value was determined to be C\$319 (\$236).

The following table reflects all warrants issued and outstanding as of December 31, 2020:

Expiry date	Exercise price (C\$)	Warrants outstanding
May 6, 2022	0.35	96,185
June 1, 2022	0.41	632,975
		<b>729,160</b>

Subsequent to December 31, 2020, 27,061 warrants were exercised at C\$0.35 (\$0.27) each for proceeds of C\$9 (\$7). Outstanding warrants after the exercise were 702,099.

**19. INCOME TAXES***Rate reconciliation*

The following table reconciles the expected income tax expense (recovery) at the Canadian statutory income tax rates to the amounts recognized in the consolidated statements of loss and comprehensive loss for the nine months ended December 31, 2020, and year ended March 31, 2020:

	Nine months ended December 31, 2020	Year ended March 31, 2020
Loss before income taxes	\$ (4,257)	\$ (2,176)
Combined Canadian federal and provincial income tax rates	26.5%	26.5%
Expected income tax recovery	(1,128)	(577)
Non-deductible items	2,647	7
Share-based compensation	838	-
Change in deferred tax asset not recognized	476	615
Change in estimates	237	-
Impact of different foreign statutory tax rates on earnings of subsidiaries	27	(55)
Mining duties	(117)	-
Inflation adjustments	(300)	-
Foreign exchange	(1,053)	-
Share issuance cost	(168)	(2)
Other	9	12
<b>Income tax expense</b>	<b>\$ 1,468</b>	<b>\$ -</b>
	Nine months ended December 31, 2020	Year ended March 31, 2020
Current tax recovery	\$ (677)	\$ -
Deferred tax expense	2,145	-
<b>Income tax expense</b>	<b>\$ 1,468</b>	<b>\$ -</b>

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*Deferred tax assets and liabilities*

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values. Details of deferred tax assets (liabilities) are as follows:

	December 31, 2020	March 31, 2020
Non-capital losses carryforward	\$ 547	\$ 556
Other liabilities	511	-
Provision for site reclamation and closure	508	-
Deferred revenue	405	-
Mining taxes	155	-
Prepays	(168)	-
Inventories	(563)	-
Mineral properties, plant and equipment, exploration and evaluation	(1,202)	(556)
Other	(10)	-
	<b>\$ 183</b>	<b>\$ -</b>

Amounts reported on the consolidated statement of financial position:

	December 31, 2020	March 31, 2020
Deferred tax assets	\$ 772	\$ -
Deferred tax liabilities	(589)	-
	<b>\$ 183</b>	<b>\$ -</b>

At December 31, 2020, the Company recognized \$772 (March 31, 2020 - \$nil) deferred tax assets in excess of profits arising from its existing taxable temporary differences as the Company expects to utilize these deductible temporary differences against future taxable profits from revenues from its mining operations.

Movement in net deferred tax balances:

	Note	December 31, 2020	March 31, 2020
Balance at the beginning of the period		\$ -	\$ -
Recognized in business combination	6	2,328	-
Recognized in net loss		(2,145)	-
		<b>\$ 183</b>	<b>\$ -</b>

*Unrecognized deductible temporary differences and loss carryforwards*

The unrecognized deductible temporary differences as at December 31, 2020, and March 31, 2020, were comprised of the following:

	December 31, 2020	March 31, 2020
Provision for site reclamation and closure	\$ 5,567	\$ -
Mexican tax losses <sup>(1)</sup>	4,365	2,136
Non-capital losses <sup>(2)</sup>	2,946	907
Sandstorm deferred revenue	2,099	-
Other provisions	1,200	-
Other liabilities	1,073	-
Deferred revenue	539	-
Mining duties	287	-
Share issuance cost	444	56
<b>Total unrecognized deductible temporary differences</b>	<b>\$ 18,520</b>	<b>\$ 3,099</b>

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- (1) At December 31, 2020, the Company did not recognize a deferred tax asset in respect of Mexican tax losses carryforwards of approximately \$4,365 (March 31, 2020 - \$2,136) which may be carried forward to apply against future income for Mexican income tax purposes, subject to final determination by taxation authorities. The Mexican losses, if not utilized, will expire beginning 2028 through to 2030.
- (2) At December 31, 2020, the Company has not recognized a deferred tax asset in respect of Canadian non-capital losses carryforwards of approximately \$2,946 (March 31, 2020 - \$907) which may be carried forward to apply against future income for Canadian income tax purposes, subject to final determination by taxation authorities. The Canadian losses, if not utilized, will expire beginning 2037 through to 2040.

**20. SUPPLEMENTARY DISCLOSURE WITH RESPECT TO CASH FLOWS**

Significant non-cash investing and financing transactions were as follows:

	Note	Nine months ended December 31, 2020		Year ended March 31, 2020
Shares issued for Molimentales acquisition	6	\$	2,758	\$ -
Shares issued for Margarita acquisition	7		4,357	-
Shares issued to Peal	13		2,860	-
Molimentales acquisition compensation shares issued	16		291	-
Private placement compensation shares issued	16		239	-
Warrants issued	18b)		255	-
Shares issued for Mercedes acquisition	16		-	584
Shares issued for Las Marias acquisition	16		-	210
		\$	10,760	\$ 794

At December 31, 2020, the Company had \$1,916 (March 31, 2020 - \$nil) in trade payables related to investing activities for expenditures on mineral properties, plant and equipment, and exploration and evaluation.

**21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT****Fair value measurement of financial assets and liabilities**

The Company has established a fair value hierarchy that reflects the significance of inputs of valuation techniques used in making fair value measurements as follows:

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. from derived prices); and,

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

The carrying values of cash, trade and other receivables, trade payables and accrued liabilities, and other payables approximate their fair value due to their short-term nature, and are classified at amortized cost.

At December 31, 2020, and March 31, 2020, there were no financial assets or liabilities measured and recognized in the statements of financial position at fair value that would be categorized as Level 3 in the fair value hierarchy above.

There were no transfers between Level 1 and Level 2, during the nine months ended December 31, 2020, or for the year ended March 31, 2020.

*Derivatives*

During the nine months ended December 31, 2020, the Company entered into gold option contracts whereby the Company sold the right to a third party to purchase a number of the Company's gold ounces at a set price. The carrying value of the derivatives are based on the valuation of the outstanding gold option contracts using Level 2 inputs and valuation techniques.

During the nine months ended December 31, 2020, the loss on the contracts was \$53 (year ended March 31, 2020 - \$nil).

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On December 31, 2020, the Company did not hold any gold option contracts and therefore no derivative asset or liability was recognized on the consolidated statement of financial position.

Subsequent to December 31, 2020, the Company entered into gold option contracts whereby the Company sold the right to a third party to purchase 4,500 gold ounces, with a weighted average exercise price of \$1,847 per gold ounce, and expiry dates ranging from January 22 to March 29, 2021. Of these, contracts covering 300 gold ounces were exercised and contracts covering 4,200 gold ounces expired unexercised.

Additionally, subsequent to December 31, 2020, and in conjunction with an agreement with Auramet International LLC ("Auramet") (note 26), the Company entered into gold option contracts whereby the Company granted the right to Auramet to purchase 3,000 gold ounces, with a weighted average exercise price of \$2,000 per gold ounce, and expiry dates ranging from August 31, 2021, to May 31, 2022.

**Risk management**

The Company's primary business activities consist of the acquisition, exploration, development and operation of mineral resource properties in Mexico. The Company examines the various financial risks to which it is exposed and assesses the impact and likelihood of occurrence. These risks may include credit risk, commodity price risk, currency risk, liquidity risk, and interest rate risk. The Company's risk management program strives to evaluate the unpredictability of financial and commodity markets and its objective is to minimize the potential adverse effects of such risks on the Company's financial performance, where financially feasible to do so. When deemed material, these risks may be monitored by the Company's finance team and they are regularly discussed with the Board of Directors or one of its committees.

*i. Credit risk*

Counterparty credit risk is the risk that the financial benefits of contracts with a specific counterparty will be lost if a counterparty defaults on its obligations under the contract. This includes any cash amounts owed to the Company by those counterparties, less any amounts owed to the counterparty by the Company where a legal right of set-off exists and also includes the fair values of contracts with individual counterparties which are recorded in the consolidated financial statements.

The Company's credit risk is predominantly limited to cash balances held in financial institutions and any gold and silver sales and related receivables and other receivables. The maximum exposure to credit risk is equal to the carrying value of such financial assets. At December 31, 2020, and March 31, 2020, the Company expected to recover the full amount of such assets.

The objective of managing counterparty credit risk is to minimize potential losses in financial assets. The Company assesses the quality of its counterparties, taking into account their credit worthiness and reputation, past performance and other factors.

Cash is only deposited with or held by major financial institutions where the Company conducts its business.

Gold and silver sales are made to a limited number of large international organizations specializing in the precious metals markets. The Company believes them to be of sound credit worthiness, and to date, all receivables have been settled in accordance with agreed upon terms and conditions.

*ii. Commodity price risks*

The Company is exposed to price risk associated with the volatility of the market price of commodities, in particular gold and silver, and also to many consumables that are used in the production of gold and silver.

The prices of most commodities are determined in international markets and as such the Company has limited or no ability to control or predict the future level of most commodity prices. In some instances, the Company may have the ability to enter into derivative financial instruments (see derivatives section) to manage the Company's exposure to changes in the price of commodities such as gold, silver, oil and electricity.

*iii. Currency risk*

The functional currency of Magna Gold Corp. and 2660170 Ontario Ltd. is the Canadian dollar and the Mexican Peso for LM Mining and Minera Magna. The functional currency of Molimentales was determined to be the US dollar. Therefore, the Company's loss and comprehensive loss are impacted by fluctuations in the value of foreign currencies in relation to the US\$.

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The table below summarizes the net monetary assets and liabilities held in foreign currencies:

	December 31, 2020		March 31, 2020		April 1, 2019	
Mexican peso net monetary assets	\$	3,920	\$	38	\$	37
Canadian dollar net monetary assets	\$	547	\$	3	\$	3,098

The effect on loss before income tax at December 31, 2020, of a 10.0% change in the foreign currencies against the US dollar on the above-mentioned net monetary assets of the Company is estimated to be an increase/decrease of \$447 (March 31, 2020 - \$4, April 1, 2019 - \$314) assuming that all other variables remained constant.

*iv. Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements and its exploration and production plans.

In the normal course of business, the Company enters into contracts and performs business activities that give rise to commitments for future minimum payments.

*v. Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The observable impacts on the fair value and future cash flows of financial instruments that can be directly attributable to interest rate risk include changes in profit or loss from financial instruments whose cash flows are determined with reference to floating interest rates and potential changes in value of financial instruments whose cash flows are fixed in nature. The Company does not have any financial liabilities with floating interest rates and accordingly is not exposed to cash flow risk. Additionally, the Company does not have non-current fixed rate financial liabilities and accordingly is not exposed to fair value risk.

The Company does not enter into derivative contracts, interest rate swaps or other instruments to actively manage these risks.

**22. COMMITMENTS AND CONTINGENCIES**

A summary of undiscounted liabilities and commitments at December 31, 2020, is as follows:

	Note	Total	Less than 1 year	1-3 years	4-5 years	Greater than 5 years
<b>Maturity analysis of financial liabilities</b>						
Trade payables and accrued liabilities	12	\$ 17,899	\$ 17,899	\$ -	\$ -	\$ -
Other payables	13	11,729	11,729	-	-	-
		<b>29,628</b>	29,628	-	-	-
<b>Commitments</b>						
Provision for site reclamation and closure <sup>(1)</sup>	15	6,277	-	-	-	6,277
Other provisions <sup>(2)</sup>	15	1,732	-	-	-	1,732
Option payments on exploration and evaluation properties	11	3,590	415	1,690	1,485	-
<b>Total financial liabilities and commitments</b>		<b>\$ 41,227</b>	\$ 30,043	\$ 1,690	\$ 1,485	\$ 8,009

<sup>(1)</sup> Provision for site reclamation and closure represents the undiscounted amount of the estimated cash flows required to settle the retirement obligations of the San Francisco Mine. At December 31, 2020, the undiscounted amount was \$6,277.

<sup>(2)</sup> Other provisions represent the undiscounted amount of the demobilization costs related to the mining contractor, whereby the Company is responsible for demobilization costs payable one month prior to the end of the mining contract. This obligation has been recorded at an annualized discount rate of 5.25%, reflecting the implied interest rate, and calculated according to the formula stipulated in the contract. At December 31, 2020, this obligation was determined to be \$1,732.

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Various tax and legal matters may arise from time to time. The Company will recognize the financial effects of these matters in the consolidated financial statements in the period such matters occur.

**23. METAL REVENUES**

During the nine months ended December 31, 2020, the Company had sales agreements with three customers. The percentage breakdown of metal revenues by customer is as follows:

	Nine months ended December 31, 2020	Year ended March 31, 2020
Customer A	84%	- %
Customer B	5%	- %
Customer C	11%	- %
	<b>100%</b>	<b>- %</b>

Due to the nature of the gold market, the Company is not dependent on any customers to sell finished goods.

The Company's metal revenues from operations, all of which are derived in Mexico, are as follows:

	Nine months ended December 31, 2020	Year ended March 31, 2020
Gold	\$ 36,836	\$ -
Silver	211	-
	<b>\$ 37,047</b>	<b>\$ -</b>

**24. RELATED PARTY TRANSACTIONS***Key Management Personnel*

Key management personnel include those persons having authority and responsibility for planning, directing, and controlling the activities of the Company as a whole.

- a) The Company defines its key management personnel as its Board of Directors, Chief Executive Officer, Chief Financial Officer ("CFO"), and certain officers of the Company. Remuneration of key management personnel of the Company was as follows:

	Nine months ended December 31, 2020	Year ended March 31, 2020
Salaries and benefits <sup>(1)(2)</sup>	\$ 488	\$ 261
Share-based compensation	\$ 1,875	\$ -

<sup>(1)</sup> The Board of Directors do not have employment or service contracts with the Company. There were no director fees accrued or paid during the nine months ended December 31, 2020, or year ended March 31, 2020.

<sup>(2)</sup> Salaries and benefits exclude fees paid to the CFO's associated companies (note 24(b)).

- b) The CFO of Magna during the nine months ended December 31, 2020, and the year ended March 31, 2020, provided services through entities controlled by the CFO for total fees of \$51 (during the year ended March 31, 2020 - \$61) on terms equivalent to those that prevail with arm's length transactions.

As at December 31, 2020, these entities were owed \$3 (March 31, 2020 - \$3) and this amount is included in trade payables and accrued liabilities.

- c) The Company receives legal advisory services through two Mexico-based entities of which a newly appointed Director is a partner. The Director was elected to the Board of Directors on September 15, 2020, at the Company's annual and special meeting of shareholders. During the nine months ended December 31, 2020, legal advisory services of \$178 (year ended March 31, 2020 - \$nil), were incurred by the Company for these legal advisory services.



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- d) During the nine months ended December 31, 2020, the Company incurred \$5 (year ended March 31, 2020 - \$nil) for one-time business development advisory fees performed by a director of the Company.

**25. MANAGEMENT OF CAPITAL**

The Company's objectives of capital management are intended to safeguard the Company's normal operating requirements on an ongoing basis and the continued development and exploration of its mineral properties.

		<b>December 31, 2020</b>		March 31, 2020		April 1, 2019
Equity		\$ 14,871	\$	3,006	\$	3,128
Other payables	13	11,285		-		5
		<b>26,156</b>		3,006		3,133
Less: Cash		<b>(7,056)</b>		(164)		(1,213)
		<b>\$ 19,100</b>	\$	2,842	\$	1,920

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated depending on various factors, including successful capital deployment and general industry conditions.

The Company also has in place a planning, budgeting and forecasting process which is used to identify the amount of funds required to ensure the Company has appropriate liquidity to meet short and long-term operating objectives. In order to maintain or adjust its capital structure, the Company may issue new shares or debt.

At December 31, 2020, and March 31, 2020, the Company was not subject to externally imposed capital requirements.

**26. EVENTS AFTER THE REPORTING PERIOD***Auramet Agreement*

During February 2021, the Company, through its subsidiary Molimentales, signed an agreement with Auramet International LLC whereas the Company will receive \$4,000 in exchange for nine equal payments of 275 gold ounces to be delivered to Auramet starting April 2021 and ending on December 31, 2021.

On February 12, 2021, the Company received \$3,940 representing \$4,000 less transaction costs of \$20, an upfront 1% fee of \$40, and applicable banking charges.

In conjunction with the Agreement, the Company entered into gold option contracts that grant Auramet the right to purchase 3,000 gold ounces at a weighted average exercise price of \$2,000 per gold ounce with varying dates up to May 31, 2022 (note 21).