ARGONAUT GOLD

Interim Condensed Consolidated Financial Statements

(Unaudited and expressed in thousands of United States dollars)

For the three months ended March 31, 2018 and 2017

ARGONAUT GOLD INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited and expressed in thousands of United States dollars)

		March 31, 2018		December 31, 2017
ASSETS				
Current assets				
Cash and cash equivalents	$	21,273	$	14,060
Receivables (Note 4)		21,558		19,449
Inventories (Note 5)		77,936		68,911
Prepaid income tax		649		768
Prepaid expenses and other		1,944		1,034
Foreign exchange derivative assets (Note 14)		249		-
		123,609		104,222
Mineral properties, plant and equipment (Note 6)		572,878		579,395
Deferred income taxes		6,380		5,911
Other assets		573		332
Total assets	$	703,440	$	689,860
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities (Note 7)	$	27,794	$	22,881
Income taxes payable		2,923		758
Foreign exchange derivative liabilities (Note 14)		-		552
		30,717		24,191
Debt (Note 8)		8,000		8,000
Reclamation provision		9,476		9,434
Deferred income taxes		13,102		13,033
Other liabilities		2,738		2,756
Total liabilities		64,033		57,414
SHAREHOLDERS’ EQUITY				
Share capital (Note 9(b))		785,952		784,447
Contributed surplus		15,410		16,100
Deficit		(79,115)		(91,344)
Accumulated other comprehensive loss		(82,840)		(76,757)
Total shareholders' equity		639,407		632,446
Total liabilities and shareholders' equity	$	703,440	$	689,860

Commitments and contingencies (Note 13)

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

ARGONAUT GOLD INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME

For the three months ended March 31, 2018 and 2017
(Unaudited and expressed in thousands of United States dollars)

	Three months ended March 31, 2018	2017
Revenue	$ 52,946	$ 44,456
Cost of sales		
Production costs	27,052	27,755
Depreciation, depletion and amortization	8,527	6,620
Total cost of sales	35,579	34,375
Gross profit	17,367	10,081
Exploration expenses	131	115
General and administrative expenses	3,395	3,240
Profit from operations	13,841	6,726
Finance income	8	102
Finance expenses	(317)	(297)
Gains on foreign exchange derivatives (Note 14)	810	1,684
Other income	450	1,688
Income before income taxes	14,792	9,903
Current income tax expense	2,963	995
Deferred income tax recovery	(400)	(3,116)
Net income for the period	$ 12,229	$ 12,024
Earnings per share		
Basic and diluted	$ 0.07	$ 0.07
Weighted average number of common shares outstanding (Note 10)		
Basic	177,516,128	161,374,884
Diluted	178,614,155	162,365,585

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

ARGONAUT GOLD INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three months ended March 31, 2018 and 2017
(Unaudited and expressed in thousands of United States dollars)

	Three months ended March 31, 2018	Three months ended March 31, 2017
Net income for the period	$ 12,229	$ 12,024
Other comprehensive income (loss), net of tax		
Items that may be reclassified subsequently to net income		
Foreign currency translation differences	(6,083)	2,344
Comprehensive income for the period	$ 6,146	$ 14,368

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

ARGONAUT GOLD INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended March 31, 2018 and 2017
(Unaudited and expressed in thousands of United States dollars)

	Three months ended March 31, 2018	Three months ended March 31, 2017
Operating activities		
Net income for the period	$ 12,229	$ 12,024
Items not affecting cash:		
Depreciation, depletion and amortization	8,566	6,669
(Gain) loss on disposal of equipment	4	(7)
Share-based compensation	815	852
Finance income and expense	309	195
Unrealized foreign exchange (gain) loss	317	(21)
Gains on foreign exchange derivatives	(810)	(1,684)
Deferred income taxes	(400)	(3,116)
	21,030	14,912
Changes in non-cash operating working capital items		
Receivables	(2,089)	(3,897)
Inventories	(8,128)	4,353
Prepaid expenses and other	(842)	(837)
Accounts payable and accrued liabilities	5,359	(497)
Income taxes	2,984	1,179
Changes in other long-term assets	(4)	(7)
Changes in other long-term liabilities	258	99
Income taxes paid	(688)	(2,593)
Interest received	8	102
Net cash provided by operating activities	17,888	12,814
Investing activities		
Expenditures on mineral properties, plant and equipment	(10,698)	(18,764)
Proceeds on disposal of equipment	2	38
Cash consideration paid on property acquisitions (Note 3)	(96)	(13,000)
Net cash used in investing activities	(10,792)	(31,726)
Financing activities		
Proceeds from issuance of common shares, net of share issuance costs (Note 9(b))	-	31,929
Repayment of debt	(10,000)	(455)
Debt financing and transaction costs	(276)	(200)
Proceeds from debt	10,000	-
Proceeds from settlement of derivatives (Note 14)	-	193
Interest paid	(172)	(54)
Net cash provided by (used in) financing activities	(448)	31,413
Effects of exchange rate changes on cash and cash equivalents	565	568
Increase in cash and cash equivalents	7,213	13,069
Cash and cash equivalents, beginning of period	14,060	42,098
Cash and cash equivalents, end of period	$ 21,273	$ 55,167

Supplemental cash flow information (Note 11)

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

ARGONAUT GOLD INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the three months ended March 31, 2018 and 2017
(Unaudited and expressed in thousands of United States dollars)

	Three months ended March 31, 2018	Three months ended March 31, 2017
Share capital (Note 9(b))		
Balance at the beginning of the period	$ 784,447	$ 750,472
Issuance of common shares by way of public offering	-	31,509
Stock options exercised	-	302
Restricted shares and restricted share units vested	1,505	1,486
Balance at the end of the period	785,952	783,769
Contributed surplus		
Balance at the beginning of the period	16,100	15,644
Stock options exercised	-	(104)
Restricted shares and restricted share units vested	(1,505)	(1,486)
Share-based compensation	815	852
Balance at the end of the period	15,410	14,906
Deficit		
Balance at the beginning of the period	(91,344)	(115,196)
Net income for the period	12,229	12,024
Balance at the end of the period	(79,115)	(103,172)
Accumulated other comprehensive loss		
Balance at the beginning of the period	(76,757)	(93,672)
Other comprehensive income (loss)	(6,083)	2,344
Balance at the end of the period	(82,840)	(91,328)
Total shareholders' equity	$ 639,407	$ 604,175

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

1 NATURE OF OPERATIONS

Argonaut Gold Inc. (the "Company" or "Argonaut") is a Canadian public company listed on the Toronto Stock Exchange and engaged in gold mining, mine development and mineral exploration activities at gold-bearing mineral properties in North America. As at March 31, 2018, the Company owns the producing El Castillo and San Agustin mines (which together form the El Castillo mining complex) in the State of Durango, Mexico, the producing La Colorada mine in the State of Sonora, Mexico, the advanced exploration stage San Antonio project in the State of Baja California Sur, Mexico, the advanced exploration stage Cerro del Gallo project in the State of Guanajuato, Mexico, the advanced exploration stage Magino property in the Province of Ontario, Canada, and several other exploration stage projects, all of which are located in North America.

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

2 BASIS OF PRESENTATION AND CONSOLIDATION

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as applicable to interim financial reports including International Accounting Standard ("IAS") 34, Interim Financial Reporting. Therefore, these interim condensed consolidated financial statements do not include all the information and note disclosures required by IFRS for annual financial statements and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2017, which have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB") and included in Part 1 of the Handbook of the Chartered Professional Accountants of Canada.

The accounting policies applied in these interim condensed consolidated financial statements are consistent with those applied in the most recent annual consolidated financial statements, except for the adoption of new and amended standards as set out below.

These interim condensed consolidated financial statements were approved by the Board of Directors of the Company on April 30, 2018.

a) New and amended standards adopted by the Company

The Company has adopted the following new and amended standards effective January 1, 2018 and as a result changed its accounting policies for them. These changes were made in accordance with the applicable transitional provisions.

IFRS 9, Financial Instruments ("IFRS 9")

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss ("FVTPL"). There is now a new expected credit loss model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in OCI for liabilities designated as FVTPL.

The Company applied IFRS 9 retrospectively; however, the adoption of IFRS 9 did not require any adjustments to the classification or measurement of the Company's financial assets and financial liabilities. The adoption of the new expected credit loss model under IFRS 9 had a negligible impact on the carrying amounts of our financial assets on the transition date given the Company transacts exclusively with large international financial institutions and other organizations with strong credit ratings.

Under IFRS 9, the Company classifies its financial instruments into the following categories:

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

Financial assets at FVTPL – Financial assets measured at FVTPL are assets that do not qualify as financial assets at amortized cost or fair value through OCI. The Company classifies foreign exchange derivative assets as financial assets at FVTPL. The Company initially recognizes these financial assets at their fair value with subsequent changes to fair values recognized in the statement of income.

Financial liabilities at amortized cost – Financial liabilities are measured at amortized cost unless they are required to be measured at FVTPL. The Company classifies accounts payable and accrued liabilities, debt and other liabilities as financial liabilities at amortized cost.

Financial liabilities at FVTPL – Financial liabilities measured at FVTPL are specific liabilities, including derivatives, which cannot be classified as financial liabilities at amortized cost. The Company classifies foreign exchange derivative liabilities as financial liabilities at FVTPL. The Company initially recognizes these financial liabilities at their fair value with subsequent changes to fair values recognized in the statement of income.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. IFRS 15 was issued in May 2014 by the IASB. The standard replaces IAS 18, Revenue, and IAS 11, Construction Contracts, and related interpretations. Under IFRS 15, revenue is recognized upon transfer of control over goods or services to the customer. The recognition of revenue upon transfer of control to the customer is consistent with the Company's revenue recognition policy as set out in note 2(l) of the annual consolidated financial statements for the year ended December 31, 2017, as the condition is generally satisfied when title transfers to the customer. The Company elected to apply IFRS 15 using a modified retrospective approach; however, the adoption of IFRS 15 resulted in no impact on the financial statements of the Company, as the timing of revenue recognition was unchanged.

b) Recent accounting pronouncements

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2018, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Company, except the following set out below:

IFRS 16, Leases ("IFRS 16"), was issued in January 2016 by the IASB. According to the new standard, all leases will be on the statement of financial position of lessees, except those that meet the limited exception criteria. The standard is effective for annual periods beginning on or after January 1, 2019. The Company has begun the process of compiling all existing operating leases and service contracts and reviewing the relevant agreements to identify which operating leases and service contracts are in scope for IFRS 16.

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

c) Significant estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may vary from those estimates due to inherent uncertainty or other factors. The Company regularly reviews its estimates. Revisions to estimates and the resulting effects on the carrying amounts of the assets and liabilities are accounted for prospectively. Key sources of estimation uncertainty that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities applied in the preparation of these unaudited interim condensed consolidated financial statements are consistent with those applied and disclosed in the annual consolidated financial statements for the year ended December 31, 2017.

Impairment of non-current assets

At each reporting date, the Company reviews its non-current assets to determine whether there are any indications of impairment. Non-current assets that have been impaired are tested for possible reversal of the impairment whenever events or changes in circumstance indicate that the impairment may have reversed. As at March 31, 2018, management of the Company determined the continued weakness in the Company's share price during 2018, resulting in the Company's market capitalization being below the carrying value of net assets, constituted an impairment indicator. Therefore, the Company completed an impairment assessment for each of the Company's cash generating units ("CGUs" or "CGU") whereby the carrying value of the CGU, including acquisition cost, was compared to its recoverable amount using assumptions consistent with those used at December 31, 2017. Management's impairment evaluation did not result in the identification or reversal of an impairment loss as at March 31, 2018.

(Unaudited and expressed in thousands of United States dollars)

3 PROPERTY ACQUISITIONS

a) On November 24, 2017, the Company completed the acquisition of the Cerro del Gallo project through the purchase of all the issued and outstanding shares of San Anton Resource Corporation, a wholly-owned subsidiary of Primero Mining Corp. ("Primero") for total consideration of $15,194. Cash of $15,000 was paid to Primero on closing. The transaction was accounted for as an asset acquisition. The purchase consideration was as follows:

Cash consideration	$	15,000
Transaction costs		194
Consideration given	$	15,194

The allocation of the purchase price to the assets acquired and liabilities assumed was based upon estimated fair values at the date of acquisition as set out below:

Cash and cash equivalents	$	131
Mexican value added tax receivable		1,540
Prepaid expenses and other		12
Mineral properties, plant and equipment		13,514
Accounts payable and accrued liabilities		(3)
Net assets acquired	$	15,194

b) On February 23, 2017, the Company acquired the San Juan mineral concession adjacent to the El Castillo mine from a wholly-owned subsidiary of Fresnillo plc ("El Aguila") pursuant to a purchase and sale agreement dated February 23, 2017 between El Aguila and Minera Real del Oro S.A. de C.V., a wholly-owned subsidiary of Argonaut, for total consideration of $25,490. Cash of $13,000, plus 16% value added tax ("VAT"), was paid at the execution of the agreement. Additionally, deferred cash consideration of $13,000, plus 16% VAT, was paid on December 15, 2017. At the date of acquisition, an amount of $12,490 was included in the purchase price, representing the estimated net present value of the deferred cash consideration. Accretion of the deferred cash consideration from date of acquisition to December 15, 2017 was included in finance expenses. The transaction has been accounted for as an asset acquisition. The purchase price has been allocated to mineral properties based upon the estimated fair value of the assets acquired at the date of acquisition.

(Unaudited and expressed in thousands of United States dollars)

4 RECEIVABLES

	March 31, 2018	December 31, 2017
Mexican value added tax receivable	$ 21,396	$ 19,179
Due from customer	-	196
Other receivables	162	74
	$ 21,558	$ 19,449

5 INVENTORIES

	March 31, 2018	December 31, 2017
Supplies	$ 11,860	$ 8,854
Work-in-process	65,517	59,720
Finished goods	559	337
	$ 77,936	$ 68,911

Cost of inventories recognized as expense in cost of sales for the three months ended March 31, 2018 totalled $35,579 (three months ended March 31, 2017 - $34,375).

(Unaudited and expressed in thousands of United States dollars)

6 MINERAL PROPERTIES, PLANT AND EQUIPMENT

	Mineral properties[1]	Exploration and evaluation assets	Plant and equipment[1]	Total[2]
Cost				
Balance at January 1, 2018	$ 474,033	$ 384,166	$ 139,202	$ 997,401
Additions	5,620	1,612	2,722	9,954
Disposals	-	-	(262)	(262)
Adjustment on currency translation	-	(6,983)	-	(6,983)
Balance at March 31, 2018	479,653	378,795	141,662	1,000,110
Accumulated depreciation, depletion, amortization and impairment				
Balance at January 1, 2018	319,012	-	98,994	418,006
Additions	7,643	-	1,825	9,468
Disposals	-	-	(242)	(242)
Balance at March 31, 2018	326,655	-	100,577	427,232
Net book value at March 31, 2018	$ 152,998	$ 378,795	$ 41,085	$ 572,878
Cost				
Balance at January 1, 2017	$ 413,009	$ 345,114	$ 117,845	$ 875,968
Acquisitions (Note 3)	25,490	13,431	83	39,004
Additions	35,534	8,980	24,050	68,564
Disposals	-	-	(2,834)	(2,834)
Adjustment on currency translation	-	16,641	58	16,699
Balance at December 31, 2017	474,033	384,166	139,202	997,401
Accumulated depreciation, depletion, amortization and impairment				
Balance at January 1, 2017	297,408	-	94,466	391,874
Additions	21,604	-	6,764	28,368
Disposals	-	-	(2,236)	(2,236)
Balance at December 31, 2017	319,012	-	98,994	418,006
Net book value at December 31, 2017	$ 155,021	$ 384,166	$ 40,208	$ 579,395

[1] As at March 31, 2018, plant and equipment includes $196 and mineral properties includes $1,410 of assets under construction primarily related to the La Colorada mine (December 31, 2017 - $1,754 and $1,575 respectively, primarily related to the El Castillo mining complex), which were not subject to depreciation and depletion at the statement of financial position date.

[2] Certain mineral properties, plant and equipment are held as security on the Company's revolving credit facility (see note 8).

7 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2018	December 31, 2017
Trade accounts payable	$ 19,305	$ 14,351
Accrued liabilities	8,489	8,530
	$ 27,794	$ 22,881

(Unaudited and expressed in thousands of United States dollars)

8 DEBT

In February 2018, the Company entered into an amended and restated credit agreement (the "Amended Revolving Facility" or "ARF") with a syndicate of Canadian banks for an aggregate amount of $50,000, representing a $20,000 increase from the principal amount of $30,000 under the original revolving credit facility. The ARF encompasses an extension of maturity through March 31, 2021 and a $25,000 accordion feature, providing for total availability of up to $75,000. The ARF is subject to eight commitment reductions of $3,125 per quarter, plus the ratable amount of any incremental commitment derived from the accordion, with reductions to commence on June 30, 2019 and extend through maturity. The ARF bears interest at the London Inter-bank Offered Rate ("LIBOR") plus 2.25% to 3.25% on drawn amounts and 0.51% to 0.73% on undrawn amounts, based on the Company's consolidated leverage ratio, as defined in the agreement.

The Company incurred transaction costs and upfront fees on closing of the original and amended revolving credit facility, which are being amortized over the term of the revolving credit facility. The ARF is secured by all of the Company's assets and is subject to covenants that require the Company to maintain certain net tangible worth and ratios for leverage and interest coverage. As at March 31, 2018, the Company was in compliance with these covenants.

As at March 31, 2018 and December 31, 2017, the Company had utilized $8,000 of the revolving credit facility.

9 SHAREHOLDERS' EQUITY

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

(b) Issued and outstanding share capital

	Number of shares		Amount
Balance at January 1, 2017	158,163,137	$	750,472
Issuance of common shares by way of public offering	18,750,000		31,509
Restricted share units issued to directors	87,915		164
Restricted shares issued to employees - vested[(1)]	-		1,448
Restricted share units issued to employees - vested	19,899		42
Stock options exercised (Note 9(c))	479,676		812
Forfeiture of restricted shares previously issued to employees (Note 9(c))	(272,854)		-
Balance at December 31, 2017	177,227,773		784,447
Restricted share units issued to directors	131,594		258
Restricted shares issued to employees - vested[(1)]	-		609
Restricted share units issued to employees - vested	322,288		638
Balance at March 31, 2018	177,681,655	$	785,952

[(1)] During the three months ended March 31, 2018, 430,102 restricted shares granted to employees vested (year ended December 31, 2017 - 889,668). All of these restricted shares were issued in prior years.

Public offering

In February 2017, the Company entered into an agreement with a syndicate of underwriters, under which the underwriters agreed to buy on a bought deal basis 16,700,000 common shares of the Company at a price of CA$2.40 (CA$ represents Canadian dollars) per share for gross proceeds of $29,771 (CA$40,080). The Company granted the underwriters an option, exercisable at the offering price for a period of 30 days following the closing of the offering, to purchase up to an additional 15% of the offering to cover over-allotments, if any. The initial offering closed on March 15, 2017. On March 21, 2017, the syndicate of underwriters partially exercised the over-allotment option to acquire an additional 2,050,000 common shares of the Company at a price of CA$2.40 per share for additional gross proceeds of $3,686 (CA$4,920). After general offering costs and a 5% underwriting fee, the net proceeds to the Company totaled $31,509.

(Unaudited and expressed in thousands of United States dollars)

(c) Share-based compensation

The Company has established the Share Incentive Plan, as amended, which was adopted by the Board of Directors on February 12, 2010, was approved by shareholders in 2010 and was re-approved by shareholders on May 3, 2016. The Share Incentive Plan provides that the maximum number of common shares available to be granted by the Board of Directors as stock options, restricted shares, restricted share units (“RSUs” or “RSU”), performance share units (“PSUs” or “PSU”) and any other share-based compensation arrangements is 7.25% of the total common shares issued and outstanding.

Stock options

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

The following table summarizes information relating to stock options outstanding and exercisable at March 31, 2018:

	Exercise price per share (CA$)	Number outstanding	Weighted average remaining contractual life (years)		Weighted average exercise price (CA$)	Options exercisable		Weighted average exercise price (CA$)
$	1.10 - 1.31	1,424,432	7.85	$	1.10	949,617	$	1.10
	1.32 - 2.48	897,009	8.78		2.42	301,477		2.39
	2.49 - 4.00	892,085	7.01		2.67	671,581		2.69
	4.01 - 7.00	395,967	4.99		4.72	395,967		4.72
	7.01 - 10.35	454,307	4.60		8.74	454,307		8.74
$	1.10 - 10.35	4,063,800	7.23	$	2.94	2,772,949	$	3.40

The following table summarizes stock option activity for the Company:

	Options		Weighted average exercise price (CA$)
Outstanding at January 1, 2017	4,612,579	$	3.13
Granted	904,799		2.45
Exercised	(479,676)		1.42
Forfeited	(1,120,717)		3.91
Outstanding at December 31, 2017	3,916,985		2.96
Granted	151,815		2.49
Forfeited	(5,000)		5.58
Outstanding at March 31, 2018	4,063,800	$	2.94

(Unaudited and expressed in thousands of United States dollars)

The weighted average share price at the time of exercise for the year ended December 31, 2017 was CA$2.55 per share. The total share-based compensation expense related to stock options granted by the Company for the three months ended March 31, 2018 was $155 (three months ended March 31, 2017 - $189). As at March 31, 2018, there was $504 of unamortized stock-based compensation expense related to stock options granted (December 31, 2017 - $494).

The following weighted average assumptions were used in computing the fair value of stock options granted during the three months ended March 31:

		2018		2017
Weighted average share price	CA$	2.49	CA$	2.47
Expected dividend yield		Nil		Nil
Expected volatility		68.3%		63.9%
Risk-free interest rate		2.1%		1.2%
Estimated forfeiture rate		8.0%		8.2%
Expected life		5 years		6 years
Weighted average fair value per stock option granted	CA$	1.44	CA$	1.44

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

Restricted shares and RSUs

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

	Shares		Weighted average exercise price (CA$)
Outstanding at January 1, 2017	1,933,533	$	1.62
Granted(1)	751,355		2.45
Vested(2)	(997,482)		1.91
Forfeited(3)	(299,584)		1.39
Outstanding at December 31, 2017	1,387,822		1.91
Granted(1)	1,143,511		2.50
Vested(2)	(883,984)		2.05
Outstanding at March 31, 2018	1,647,349	$	2.24

(1) The RSUs granted during the three months ended March 31, 2018 includes 1,011,917 RSUs granted to employees that will be issued once the shares vest according to the terms below (year ended December 31, 2017 - 663,440).
(2) The restricted shares and RSUs vested during the three months ended March 31, 2018 includes 322,288 RSUs granted to employees (year ended December 31, 2017 - 19,899).
(3) The restricted shares and RSUs forfeited during the three months ended March 31, 2018 includes nil RSUs (year ended December 31, 2017 - 26,730).

RSUs granted to directors are immediately vested and are restricted for the shorter of two years after the grant date or six months after a director retires from the board. RSUs granted to employees vest one-third per year for three years. The references to outstanding restricted shares and RSUs in the above table refer to restricted shares and RSUs granted but not yet vested. The total share-based compensation expense related to restricted shares and RSUs for the three months ended March 31, 2018 was $601 (three months ended March 31, 2017 - $663). As at March 31, 2018, there was $1,788 of unamortized stock-based compensation expense related to restricted shares and RSUs (December 31, 2017 - $633).

(Unaudited and expressed in thousands of United States dollars)

Performance share units

In the first quarter of 2018, the Company awarded 776,668 PSUs, which vest at the end of three years. The total share-based compensation expense related to PSUs for the three months ended March 31, 2018 was $59 (three months ended March 31, 2017 - nil). Certain terms and conditions applicable to awards of PSUs are subject to shareholder approval of the further amended and restated 2010 share incentive plan at the Company's annual meeting of shareholders in May 2018. Once the approval of the terms and conditions has been obtained, the grant date fair value of the PSUs will be re-estimated.

10 SHARES OUTSTANDING

	Three months ended March 31, 2018	2017
Basic weighted average shares outstanding	177,516,128	161,374,884
Weighted average shares dilution adjustments:[1]		
Stock options	782,151	984,935
Restricted share units	315,876	5,766
Diluted weighted average shares outstanding	178,614,155	162,365,585

[1] Impact of dilutive stock options and RSUs was determined using the Company's average share price for the three months ended March 31, 2018 of CA$2.50 (three months ended March 31, 2017 - CA$2.47). During the three months ended March 31, 2018 and 2017, certain stock options and other share-based compensation arrangements were excluded from the calculation of diluted earnings per share due to the assumed exercise prices being greater than the average market price.

11 SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three months ended March 31, 2018	2017
Increase in expenditures on mineral properties, plant and equipment related to a decrease in accounts payable and accrued liabilities	$ 741	$ 590
Mineral property acquired for deferred cash consideration	$ -	$ (12,486)
Fair value of restricted shares and restricted share units allocated from contributed surplus to share capital upon issuance	$ 1,505	$ 1,486

(Unaudited and expressed in thousands of United States dollars)

12 SEGMENT INFORMATION

Operating segments are those operations whose operating results are reviewed by the chief operating decision maker (the Chief Executive Officer) to make decisions about resources to be allocated to the segments and assess their performance, provided those operations pass certain quantitative thresholds. In order to determine if operating segments shall be aggregated, management reviews various factors, including economic characteristics, nature of their products, production process, regulatory environment, geographical location and managerial structure. After aggregation criteria have been considered, operations whose revenues, earnings or assets exceed 10% of the total consolidated revenues, earnings or assets are considered to be reportable segments. Early-stage exploration and other operations are reported in the Corporate and other segment. The producing El Castillo and San Agustin mines have been aggregated into the El Castillo mining complex reportable segment. The Company operates in the mining industry and its principal product is gold. During the three months ended March 31, 2018 and 2017, sales were to two customers. The Company's revenue is generated on the sale of product originating from Mexico. The Company's mineral properties are located in Canada (Magino) and Mexico (El Castillo mining complex, La Colorada, and San Antonio). The following tables summarize segment information of the Company:

	El Castillo mining complex	La Colorada	San Antonio	Magino	Corporate and other	Total
Three months ended March 31, 2018						
Revenue	$ 31,919	$ 21,027	$ -	$ -	$ -	$ 52,946
Production costs	15,117	11,935	-	-	-	27,052
Depreciation, depletion and amortization	5,370	3,157	-	-	-	8,527
Total cost of sales	20,487	15,092	-	-	-	35,579
Gross profit	11,432	5,935	-	-	-	17,367
Exploration expenses	-	131	-	-	-	131
General and administrative expenses	555	320	-	-	2,520	3,395
Income (loss) from operations	$ 10,877	$ 5,484	$ -	$ -	$ (2,520)	$ 13,841
Capital expenditures	$ 4,433	$ 3,061	$ 353	$ 995	$ 1,112	$ 9,954
March 31, 2018						
Mineral properties, plant and equipment	$ 141,943	$ 40,900	$ 112,777	$ 252,080	$ 25,178	$ 572,878
Total assets	$ 227,675	$ 74,538	$ 113,138	$ 252,414	$ 35,675	$ 703,440

(Unaudited and expressed in thousands of United States dollars)

	El Castillo mining complex	La Colorada	San Antonio	Magino	Corporate and other	Total
Three months ended March 31, 2017						
Revenue	$ 24,828	$ 19,628	$ -	$ -	$ -	$ 44,456
Production costs	17,926	9,829	-	-	-	27,755
Depreciation, depletion and amortization	2,348	4,272	-	-	-	6,620
Total cost of sales	20,274	14,101	-	-	-	34,375
Gross profit	4,554	5,527	-	-	-	10,081
Exploration expenses	-	96	-	13	6	115
General and administrative expenses	302	266	-	-	2,672	3,240
Income (loss) from operations	$ 4,252	$ 5,165	$ -	$ (13)	$ (2,678)	$ 6,726
Capital expenditures	$ 34,665	$ 6,006	$ 535	$ 1,817	$ 617	$ 43,640
December 31, 2017						
Mineral properties, plant and equipment	$ 144,285	$ 39,859	$ 112,424	$ 258,063	$ 24,764	$ 579,395
Total assets	$ 213,143	$ 68,911	$ 112,759	$ 258,665	$ 36,382	$ 689,860

13 COMMITMENTS AND CONTINGENCIES

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

14 FINANCIAL INSTRUMENTS

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

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

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

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

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

(Unaudited and expressed in thousands of United States dollars)

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

		March 31, 2018		December 31, 2017
Financial assets at amortized cost[(1)]	$	21,387	$	14,263
Financial assets at FVTPL[(2)]	$	249	$	-
Financial liabilities at amortized cost[(3)]	$	(36,593)	$	(31,944)
Financial liabilities at FVTPL[(4)]	$	-	$	(552)

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

[(2)] Financial assets at FVTPL include foreign exchange derivative assets.

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

[(4)] Financial iabilities at FVTPL include foreign exchange derivative liabilities.

As at March 31, 2018 and December 31, 2017, the carrying amounts of cash and cash equivalents, receivables, and accounts payable and accrued liabilities are considered to be reasonable approximations of their fair values due to the short-term nature of these instruments. As at March 31, 2018 and December 31, 2017, the carrying amounts of other liabilities and debt are considered to be reasonable approximations of their fair values as there have been no significant changes in market interest rates since inception.

Foreign exchange derivative contracts

On January 20, 2017 (referred to as the "2017 foreign exchange contracts") and on September 25 and December 28, 2017 (together referred to as the "2018 foreign exchange contracts"), the Company entered into zero-cost collar contracts whereby it purchased a series of call option contracts and sold a series of put option contracts with equal and offsetting values at inception. These contracts were entered into to normalize operating expenses and capital expenditures to be incurred by the Company's Mexican operations as expressed in US dollar terms. The foreign exchange derivative contracts are classified as Level 2 in the fair value hierarchy. The details of the contracts were as follows:

2017 foreign exchange contracts at inception		Amount	Term	Average strike price
Foreign exchange call options - purchased	$	30,000	February 2017 - November 2017	20.00 Mexican pesos per US dollar
Foreign exchange put options - sold	$	30,000	February 2017 - November 2017	24.58 Mexican pesos per US dollar

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

(Unaudited and expressed in thousands of United States dollars)

The resulting fair values of the outstanding contracts at March 31, 2018 have been recognized, on a net basis, in foreign exchange derivative assets on the statement of financial position. These derivative instruments were not designated as hedges by the Company and are marked-to-market at the end of each reporting period with the mark-to-market adjustment recorded in the statement of income. Details are as follows:

	Three months ended March 31, 2018	Three months ended March 31, 2017
2017 foreign exchange contracts		
Unrealized gain	$ -	$ 1,491
Realized gain	-	193
2018 foreign exchange contracts		
Unrealized gain	774	-
Reversal of unrealized loss from prior period	27	-
Realized gain	9	-
Net gains on foreign exchange derivatives	$ 810	$ 1,684