ARGONAUT GOLD

Interim Condensed Consolidated Financial Statements

(Unaudited and expressed in thousands of United States dollars)

For the three and six months ended June 30, 2017 and 2016

ARGONAUT GOLD INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited and expressed in thousands of United States dollars)

		June 30, 2017		December 31, 2016
ASSETS				
Current assets				
Cash and cash equivalents	$	53,837	$	42,098
Receivables (Note 3)		17,399		13,666
Inventories (Note 4)		52,502		61,170
Prepaid income tax		319		641
Prepaid expenses and other		2,680		959
Foreign exchange derivative assets (Note 13)		1,391		-
		128,128		118,534
Restricted cash (Note 12)		1,541		1,490
Mineral properties, plant and equipment (Note 5)		544,697		484,094
Deferred income taxes		4,335		5,225
Other assets		409		557
Total assets	$	679,110	$	609,900
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities (Note 6)	$	20,726	$	19,956
Income taxes payable		1,113		2,280
Deferred cash consideration (Note 12)		12,705		-
Current portion of debt (Note 7)		-		916
		34,544		23,152
Reclamation provision		11,280		10,376
Deferred income taxes		13,513		16,361
Other liabilities		2,667		2,763
Total liabilities		62,004		52,652
SHAREHOLDERS' EQUITY				
Share capital (Note 8(b))		783,917		750,472
Contributed surplus		15,278		15,644
Deficit		(96,971)		(115,196)
Accumulated other comprehensive loss		(85,118)		(93,672)
Total shareholders' equity		617,106		557,248
Total liabilities and shareholders' equity	$	679,110	$	609,900

Commitments and contingencies (Note 12)

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

ARGONAUT GOLD INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)

For the three and six months ended June 30, 2017 and 2016
(Unaudited and expressed in thousands of United States dollars)

	Three months ended June		Six months ended June 30,	
	2017	2016	2017	2016
Revenue	$ 42,501	$ 39,135	$ 86,957	$ 74,439
Cost of sales				
Production costs	26,816	25,072	54,571	48,009
Depreciation, depletion and amortization	6,234	6,259	12,854	13,272
Reversal of inventory write down (Note 4)	-	-	-	(3,551)
Total cost of sales	33,050	31,331	67,425	57,730
Gross profit	9,451	7,804	19,532	16,709
Exploration expenses	104	112	219	236
General and administrative expenses	2,885	2,792	6,125	5,092
Profit from operations	6,462	4,900	13,188	11,381
Finance income	27	45	129	89
Finance expenses	(381)	(138)	(678)	(222)
Gains on foreign exchange derivatives (Note 13)	731	-	2,415	-
Other income (expense)	1,256	(1,763)	2,944	(3,012)
Income before income taxes	8,095	3,044	17,998	8,236
Current income tax expense	736	1,047	1,731	1,460
Deferred income tax expense (recovery)	1,158	2,670	(1,958)	3,199
Net income (loss) for the period	$ 6,201	$ (673)	$ 18,225	$ 3,577
Earnings (loss) per share				
Basic	$ 0.04	$ (0.00)	$ 0.11	$ 0.02
Diluted	$ 0.03	$ (0.00)	$ 0.11	$ 0.02
Weighted average number of common shares outstanding (Note 9)				
Basic	176,936,701	157,523,014	169,198,781	156,858,875
Diluted	177,880,245	157,523,014	170,202,469	158,386,344

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

ARGONAUT GOLD INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the three and six months ended June 30, 2017 and 2016
(Unaudited and expressed in thousands of United States dollars)

	Three months ended June		Six months ended June 30,	
	2017	2016	2017	2016
Net income (loss) for the period	$ 6,201	$ (673)	$ 18,225	$ 3,577
Other comprehensive income (loss), net of tax				
Items that may be reclassified subsequently to net income (loss)				
Foreign currency translation differences	6,210	(770)	8,554	15,473
Comprehensive income (loss) for the period	$ 12,411	$ (1,443)	$ 26,779	$ 19,050

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 and six months ended June 30, 2017 and 2016
(Unaudited and expressed in thousands of United States dollars)

	Three months ended June 2017	Three months ended June 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Operating activities				
Net income (loss) for the period	$ 6,201	$ (673)	$ 18,225	$ 3,577
Items not affecting cash:				
Depreciation, depletion and amortization	6,272	6,319	12,941	13,398
(Gain) loss on disposal of equipment	(33)	10	(40)	21
Share-based compensation	520	746	1,372	1,450
Finance income and expense	354	93	549	133
Unrealized foreign exchange gain	(230)	(12)	(251)	(89)
Gain on foreign exchange derivatives	(731)	-	(2,415)	-
Deferred income taxes	1,158	2,670	(1,958)	3,199
Reversal of inventory write down	-	-	-	(3,551)
	13,511	9,153	28,423	18,138
Changes in non-cash operating working capital items				
Receivables	110	(131)	(3,787)	(642)
Inventories	3,204	(1,062)	7,557	(1,338)
Prepaid expenses and other	123	272	(714)	(209)
Accounts payable and accrued liabilities	539	3,581	42	2,736
Income taxes	828	1,469	2,007	1,919
Changes in other long-term assets	(1)	(6)	(8)	(4)
Changes in other long-term liabilities	86	(15)	185	16
Income taxes paid	(265)	(565)	(2,858)	(2,318)
Interest received	27	34	129	67
Net cash provided by operating activities	18,162	12,730	30,976	18,365
Investing activities				
Expenditures on mineral properties, plant and equipment	(19,642)	(7,840)	(51,406)	(13,328)
Proceeds on disposal of mineral properties, plant and equipment	7	750	45	750
Proceeds from sale of other assets	-	-	-	15
Net cash used in investing activities	(19,635)	(7,090)	(51,361)	(12,563)
Financing activities				
Proceeds from issuance of common shares, net of share issuance costs (Note 8(b))	(222)	3,289	31,707	3,289
Repayment of debt	(461)	(821)	(916)	(1,625)
Debt financing and transaction costs	-	(472)	(200)	(472)
Proceeds from settlement of derivatives	831	-	1,024	-
Interest paid	(44)	(41)	(98)	(96)
Net cash provided by financing activities	104	1,955	31,517	1,096
Effects of exchange rate changes on cash and cash equivalents	39	(31)	607	1,368
Increase (decrease) in cash and cash equivalents	(1,330)	7,564	11,739	8,266
Cash and cash equivalents, beginning of period	55,167	46,583	42,098	45,881
Cash and cash equivalents, end of period	$ 53,837	$ 54,147	$ 53,837	$ 54,147

Supplemental cash flow information (Note 10)

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 six months ended June 30, 2017 and 2016
(Unaudited and expressed in thousands of United States dollars)

	Six months ended June 30, 2017	2016
Share capital (Note 8(b))		
Balance at the beginning of the period	$ 750,472	$ 746,259
Issuance of common shares by way of public offering	31,509	-
Stock options exercised	302	30
Restricted shares and restricted share units vested	1,634	1,567
Issuance of flow-through shares	-	2,579
Balance at the end of the period	783,917	750,435
Contributed surplus		
Balance at the beginning of the period	15,644	14,811
Stock options exercised	(104)	(18)
Restricted shares and restricted share units vested	(1,634)	(1,567)
Share-based compensation	1,372	1,450
Balance at the end of the period	15,278	14,676
Deficit		
Balance at the beginning of the period	(115,196)	(119,527)
Net income for the period	18,225	3,577
Balance at the end of the period	(96,971)	(115,950)
Accumulated other comprehensive loss		
Balance at the beginning of the period	(93,672)	(101,128)
Other comprehensive income	8,554	15,473
Balance at the end of the period	(85,118)	(85,655)
Total shareholders' equity	$ 617,106	$ 563,506

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 June 30, 2017, the Company owns the producing El Castillo mine and construction stage San Agustin project 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 Magino property in the Province of Ontario, Canada, and several other exploration stage projects, all of which are located in North America. The Company commenced construction of the San Agustin project in 2016 and intends future development and operations of the project to proceed as an extension of the El Castillo mining complex.

The registered office of the Company is located at Suite 3400, One First Canadian Place, 100 King Street West, Toronto, Ontario, M5K 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, 2016, 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 policies applied in these interim condensed consolidated financial statements are the same as those applied in the most recent annual consolidated financial statements and were consistently applied to all the periods presented unless otherwise noted.

These interim condensed consolidated financial statements were approved by the Board of Directors of the Company on August 10, 2017.

a) Recent accounting pronouncements

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2017, 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 9, Financial Instruments ("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 losses 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 standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is assessing the impact of IFRS 9.

IFRS 15, Revenue from Contracts with Customers ("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. Under IFRS 15, revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18, Revenue, and IAS 11, Construction Contracts, and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is assessing the impact of IFRS 15.

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 yet to assess the full impact of 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.

b) Significant estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may vary from those estimates due to inherent uncertainty or other factors. The Company regularly reviews its estimates. Revisions to estimates and the resulting effects on the carrying amounts of the assets and liabilities are accounted for prospectively. Key sources of estimation uncertainty that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities applied in the preparation of these 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, 2016.

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 June 30, 2017, management of the Company determined the continued weakness in the Company's share price during 2017, 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, 2016. Management's impairment evaluation did not result in the identification or reversal of an impairment loss as at June 30, 2017.

(Unaudited and expressed in thousands of United States dollars)

3 RECEIVABLES

		June 30, 2017		December 31, 2016
Mexican value added tax receivable	$	17,338	$	13,436
Other receivables		61		230
	$	17,399	$	13,666

4 INVENTORIES

		June 30, 2017		December 31, 2016
Supplies	$	7,722	$	7,484
Work-in-process		44,556		53,432
Finished goods		224		254
	$	52,502	$	61,170

Cost of inventories recognized as expense in cost of sales for the three and six months ended June 30, 2017 totalled $33,050 and $67,425, respectively (three and six months ended June 30, 2016 - $31,331 and $57,730, respectively). During the three and six months ended June 30, 2016, the Company recorded a non-cash impairment reversal of nil and $3,551, respectively, related to net realizable value of the work-in-process inventory at the El Castillo mine, as a result of an increase in the price of gold as at the statement of financial position date. The reversal of inventory write down has been presented in a separate component of cost of sales in the statement of income (loss).

(Unaudited and expressed in thousands of United States dollars)

5 MINERAL PROPERTIES, PLANT AND EQUIPMENT

	Mineral properties[(2)]	Exploration and evaluation assets	Plant and equipment[(2)]	Total[(3)]
Cost				
Balance at January 1, 2017	$ 413,009	$ 345,114	$ 117,845	$ 875,968
Additions[(4)(5)]	46,924	4,381	12,935	64,240
Disposals	-	-	(349)	(349)
Adjustment on currency translation	-	8,215	1	8,216
Balance at June 30, 2017	459,933	357,710	130,432	948,075
Accumulated depreciation, depletion, amortization and impairment				
Balance at January 1, 2017	297,408	-	94,466	391,874
Additions	9,028	-	2,814	11,842
Disposals	-	-	(338)	(338)
Balance at June 30, 2017	306,436	-	96,942	403,378
Net book value at June 30, 2017	$ 153,497	$ 357,710	$ 33,490	$ 544,697
Cost				
Balance at January 1, 2016	$ 310,589	$ 406,274	$ 113,557	$ 830,420
Additions	23,042	11,517	8,038	42,597
Disposals	-	-	(3,752)	(3,752)
Reclassification[(1)]	79,378	(79,378)	-	-
Adjustment on currency translation	-	6,701	2	6,703
Balance at December 31, 2016	413,009	345,114	117,845	875,968
Accumulated depreciation, depletion, amortization and impairment				
Balance at January 1, 2016	284,195	-	92,460	376,655
Additions	13,213	-	5,464	18,677
Disposals	-	-	(3,458)	(3,458)
Balance at December 31, 2016	297,408	-	94,466	391,874
Net book value at December 31, 2016	$ 115,601	$ 345,114	$ 23,379	$ 484,094

(1) Exploration and evaluation assets related to the San Agustin project, which obtained all regulatory permissions to proceed with development in 2016, were reclassified to mineral properties.

(2) As at June 30, 2017, plant and equipment includes $11,010 and mineral properties includes $8,329 of assets under construction (December 31, 2016 - $1,966 and $82,294, respectively), which were not subject to depreciation and depletion at the statement of financial position date and primarily relate to the San Agustin project.

(3) Certain mineral properties, plant and equipment are held as security on the Company's Revolving Facility, see note 7.

(4) During the six months ended June 30, 2017, the Company acquired a mineral concession adjacent to the El Castillo mine with a fair value of $25,490 at the date of acquisition, see note 12.

(5) During the six months ended June 30, 2017, the Company increased the estimate of the provision for reclamation at the San Agustin project by $824.

(Unaudited and expressed in thousands of United States dollars)

6 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2017	December 31, 2016
Trade accounts payable	$ 13,995	$ 12,157
Accrued liabilities	6,731	7,799
	$ 20,726	$ 19,956

7 DEBT

	June 30, 2017	December 31, 2016
Current portion of Other debt	$ -	$ 916
	$ -	$ 916

The borrowing arrangement classified as Other debt as at December 31, 2016 matured in April 2017.

Revolving facility

In April 2016, the Company signed a credit agreement with a syndicate of Canadian banks for a revolving credit facility ("Revolving Facility") for an aggregate amount of $30,000 which may be used to fund construction of the San Agustin project and for general corporate purposes. The term for the Revolving Facility is three years. The Revolving Facility bears interest at a rate of 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 Revolving Facility 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. The Company incurred $794 in transaction costs and upfront fees on closing of the Revolving Facility, which are being amortized over the term of the Revolving Facility. As at June 30, 2017, the Company has not drawn any funds under the Revolving Facility and is in compliance with the covenants.

(Unaudited and expressed in thousands of United States dollars)

8 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, 2016	155,347,110	$	746,259
Restricted shares issued to directors	196,396		176
Restricted shares issued to employees - vested[(1)]	-		1,365
Restricted shares issued to employees - unvested	1,639,957		-
Restricted shares issued to consultants - vested[(1)]	-		42
Issuance of flow-through shares	1,280,000		2,579
Stock options exercised (Note 8(c))	24,604		51
Forfeiture of restricted shares previously issued to employees (Note 8(c))	(324,930)		-
Balance at December 31, 2016	158,163,137		750,472
Issuance of common shares by way of public offering	18,750,000		31,509
Restricted shares issued to directors	87,915		164
Restricted shares issued to employees - vested[(1)]	-		1,448
Restricted share units issued to employees - vested	11,722		22
Stock options exercised (Note 8(c))	180,048		302
Forfeiture of restricted shares previously issued to employees (Note 8(c))	(269,742)		-
Balance at June 30, 2017	176,923,080	$	783,917

[(1)] During the six months ended June 30, 2017, 889,668 and nil restricted shares granted to employees and consultants, respectively, vested (year ended December 31, 2016 - 395,834 and 32,847, respectively). All of these restricted shares were issued in prior years.

Flow-through common shares

In May 2016, the Company issued 1,280,000 flow-through common shares at a price of CA$3.55 (CA$ represents Canadian dollars) per share by way of a private placement for net proceeds of $3,212 (CA$4,173). Share issuance costs of $286 (CA$371) were incurred in relation to the offering. The net proceeds were bifurcated between share capital of $2,579 and flow-through share premium of $633. Under the terms of the flow-through share agreements, the Company agreed to incur CA$4,544 of qualified Canadian resource expenditures by December 31, 2017 and renounce those expenditures to the investors effective December 31, 2016. During 2016, the gross proceeds were fully utilized to fund exploration expenditures at the Magino project.

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 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

(Unaudited and expressed in thousands of United States dollars)

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.

(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") and any other stock-based compensation arrangements is 7.25% of the total common shares issued and outstanding.

Stock options

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

The following table summarizes information relating to stock options outstanding and exercisable at June 30, 2017 that were granted by the Company:

	Exercise price per share (CA$)	Number outstanding	Weighted average remaining contractual life (years)		Weighted average exercise price (CA$)	Options exercisable		Weighted average exercise price (CA$)
$	1.10 - 1.31	1,659,875	8.60	$	1.10	710,251	$	1.10
	1.32 - 2.52	909,367	9.51		2.42	38,427		2.08
	2.53 - 3.49	820,201	7.51		2.60	580,967		2.60
	3.50 - 5.00	582,539	5.38		4.52	570,401		4.54
	5.01 - 7.50	103,717	5.17		6.83	103,717		6.83
	7.51 - 10.35	472,170	5.35		8.98	472,170		8.98
$	1.10 - 10.35	4,547,869	7.76	$	3.02	2,475,933	$	4.00

(Unaudited and expressed in thousands of United States dollars)

The following table summarizes stock option activity for the Company:

	Options		Weighted average exercise price (CA$)
Outstanding at January 1, 2016	2,627,948	$	4.96
Granted	2,598,731		1.17
Exercised	(24,604)		1.75
Forfeited	(589,496)		2.69
Outstanding at December 31, 2016	4,612,579		3.13
Granted	884,561		2.45
Exercised	(180,048)		1.45
Forfeited	(769,223)		3.40
Outstanding at June 30, 2017	4,547,869	$	3.02

The weighted average share price at the time of exercise for the six months ended June 30, 2017 was CA$2.66 per share (year ended December 31, 2016 - CA$3.35). The total share-based compensation expense related to stock options granted by the Company for the three and six months ended June 30, 2017 was $223 and $412, respectively (three and six months ended June 30, 2016 - $273 and $540, respectively). As at June 30, 2017, there was $843 of unamortized stock-based compensation expense related to stock options granted (December 31, 2016 - $575).

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

		2017		2016
Weighted average share price	CA$	2.45	CA$	1.13
Expected dividend yield		Nil		Nil
Expected volatility		63.9%		58.4%
Risk-free interest rate		1.2%		0.7%
Estimated forfeiture rate		8.2%		5.9%
Expected life		6 years		6 years
Weighted average fair value per stock option granted	CA$	1.43	CA$	0.61

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

(Unaudited and expressed in thousands of United States dollars)

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, 2016	1,022,653	$ 3.26
Granted(1)	1,860,887	1.17
Vested(2)	(625,077)	2.99
Forfeited(3)	(324,930)	1.60
Outstanding at December 31, 2016	1,933,533	1.62
Granted(1)	735,226	2.45
Vested(2)	(989,305)	1.90
Forfeited(3)	(293,187)	1.37
Outstanding at June 30, 2017	1,386,267	$ 1.91

(1) The restricted shares and RSUs granted during the six months ended June 30, 2017 includes 647,311 RSUs granted to employees that will be issued once the shares vest according to the terms below (year ended December 31, 2016 - 24,534).
(2) The restricted shares and RSUs vested during the six months ended June 30, 2017 includes 11,722 RSUs (year ended December 31, 2016 - nil).
(3) The restricted shares and RSUs forfeited during the six months ended June 30, 2017 includes 23,445 RSUs (year ended December 31, 2016 - nil).

Restricted shares and 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. Restricted shares and RSUs granted to employees vest one-third per year for three years. Restricted shares granted to consultants vest one-half immediately and one-half in one year following the grant date. 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 and six months ended June 30, 2017 was $297 and $960, respectively (three and six months ended June 30, 2016 - $473 and $910, respectively). As at June 30, 2017, there was $1,097 of unamortized stock-based compensation expense related to restricted shares and RSUs (December 31, 2016 - $868).

(d) Stock options and warrants issued on acquisition of Prodigy Gold Inc. (“Prodigy”)

At June 30, 2017, the Company had outstanding stock options for the purchase of common shares by former holders of Prodigy stock options issued under the former Prodigy share incentive plan. On December 11, 2012, when the Company completed the acquisition of Prodigy, each issued and outstanding option and warrant of Prodigy was exchanged for 0.1042 of an option or warrant of Argonaut, respectively. The remaining outstanding Prodigy stock options expire in August 2017. All outstanding warrants of Prodigy that were exchanged into warrants of Argonaut on completion of the acquisition of Prodigy were either exercised or expired in prior years.

(Unaudited and expressed in thousands of United States dollars)

The Prodigy stock option activity was as follows:

	Options	Weighted average exercise price (CA$)
Outstanding at January 1, 2016	1,029,582	$ 6.70
Expired	(354,833)	5.53
Outstanding at December 31, 2016	674,749	7.32
Expired	(375,149)	8.10
Outstanding at June 30, 2017	299,600	$ 6.34

9 SHARES OUTSTANDING

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Basic weighted average shares outstanding	176,936,701	157,523,014	169,198,781	156,858,875
Weighted average shares dilution adjustments:[(1)(2)]				
Stock options	750,749	-	881,829	1,527,469
Restricted share units	192,795	-	121,859	-
Diluted weighted average shares outstanding	177,880,245	157,523,014	170,202,469	158,386,344

[(1)] Impact of dilutive stock options and RSUs was determined using the Company's average share price for the three and six months ended June 30, 2017 of CA$2.17 and CA$2.32, respectively (six months ended June 30, 2016 - CA$2.14). During the three and six months ended June 30, 2017, certain stock options and RSUs, and during the six months ended June 30, 2016, certain stock options, were excluded from the calculation of diluted earnings per share due to the assumed exercise prices being greater than the average market price.

[(2)] As a result of the net loss incurred during the three months ended June 30, 2016, stock options have been excluded from the calculation of diluted loss per share as they were anti-dilutive.

(Unaudited and expressed in thousands of United States dollars)

10 SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Mineral property addition for change in estimate of reclamation provision (Note 5)	$ (824)	$ -	$ (824)	$ -
Increase (decrease) in expenditures on mineral properties, plant and equipment related to a decrease (increase) in accounts payable and accrued liabilities	$ (1,080)	$ (330)	$ (490)	$ 96
Mineral property acquired for deferred cash consideration	$ -	$ -	$ (12,486)	$ -
Fair value of restricted shares and restricted share units allocated to share capital upon issuance	$ 148	$ 178	$ 1,634	$ 1,567

(Unaudited and expressed in thousands of United States dollars)

11 SEGMENT INFORMATION

Reportable 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. Operations whose revenues, earnings or assets exceed 10% of the total consolidated revenues, earnings or assets are considered to be reportable segments. In order to determine reportable operating segments, management reviews various factors, including geographical location and managerial structure. Early-stage exploration and other operations are reported in the Corporate and other segment. The producing El Castillo mine and the construction stage San Agustin project are reported in the El Castillo segment. The Company operates in the mining industry and its principal product is gold. During the six months ended June 30, 2017, sales were to three customers (six months ended June 30, 2016 - four 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, La Colorada, and San Antonio). The following tables summarize segment information of the Company:

	El Castillo	La Colorada	San Antonio	Magino	Corporate and other	Total
Three months ended June 30, 2017						
Revenue	$ 26,856	$ 15,645	$ -	$ -	$ -	$ 42,501
Production costs	19,093	7,723	-	-	-	26,816
Depreciation, depletion and amortization	2,419	3,815	-	-	-	6,234
Total cost of sales	21,512	11,538	-	-	-	33,050
Gross profit	5,344	4,107	-	-	-	9,451
Exploration expenses	-	100	-	4	-	104
General and administrative expenses	481	480	-	-	1,924	2,885
Income (loss) from operations	$ 4,863	$ 3,527	$ -	$ (4)	$ (1,924)	$ 6,462
Capital expenditures	$ 12,918	$ 4,914	$ 378	$ 1,641	$ 749	$ 20,600
Six months ended June 30, 2017						
Revenue	$ 51,684	$ 35,273	$ -	$ -	$ -	$ 86,957
Production costs	37,019	17,552	-	-	-	54,571
Depreciation, depletion and amortization	4,767	8,087	-	-	-	12,854
Total cost of sales	41,786	25,639	-	-	-	67,425
Gross profit	9,898	9,634	-	-	-	19,532
Exploration expenses	-	196	-	17	6	219
General and administrative expenses	783	746	-	-	4,596	6,125
Income (loss) from operations	$ 9,115	$ 8,692	$ -	$ (17)	$ (4,602)	$ 13,188
Capital expenditures	$ 47,583	$ 10,920	$ 913	$ 3,458	$ 1,366	$ 64,240
June 30, 2017						
Mineral properties, plant and equipment	$ 137,417	$ 38,378	$ 111,926	$ 245,584	$ 11,392	$ 544,697
Total assets	$ 208,235	$ 73,310	$ 112,396	$ 248,648	$ 36,521	$ 679,110

(Unaudited and expressed in thousands of United States dollars)

	El Castillo	La Colorada	San Antonio	Magino	Corporate and other	Total
Three months ended June 30, 2016						
Revenue	$ 20,616	$ 18,519	$ -	$ -	$ -	$ 39,135
Production costs	14,542	10,530	-	-	-	25,072
Depreciation, depletion and amortization	3,477	2,782	-	-	-	6,259
Total cost of sales	18,019	13,312	-	-	-	31,331
Gross profit	2,597	5,207	-	-	-	7,804
Exploration expenses	-	110	-	2	-	112
General and administrative expenses	257	191	-	20	2,324	2,792
Income (loss) from operations	$ 2,340	4,906	-	(22)	(2,324)	$ 4,900
Capital expenditures	$ 2,113	$ 4,331	$ 268	$ 420	$ 848	$ 7,980
Six months ended June 30, 2016						
Revenue	$ 38,787	$ 35,652	$ -	$ -	$ -	$ 74,439
Production costs	27,773	20,236	-	-	-	48,009
Depreciation, depletion and amortization	7,437	5,835	-	-	-	13,272
Reversal of inventory write down	(3,551)	-	-	-	-	(3,551)
Total cost of sales	31,659	26,071	-	-	-	57,730
Gross profit	7,128	9,581	-	-	-	16,709
Exploration expenses	-	229	-	7	-	236
General and administrative expenses	474	383	-	20	4,215	5,092
Income (loss) from operations	$ 6,654	$ 8,969	$ -	$ (27)	$ (4,215)	$ 11,381
Capital expenditures	$ 3,435	$ 6,884	$ 606	$ 924	$ 1,206	$ 13,055
December 31, 2016						
Mineral properties, plant and equipment	$ 91,782	$ 36,214	$ 111,014	$ 233,928	$ 11,156	$ 484,094
Total assets	$ 150,540	$ 72,781	$ 111,459	$ 238,100	$ 37,020	$ 609,900

12 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.

In October 2013, the Company signed a surface and mining rights exchange agreement with Richmont Mines Inc. ("Richmont"). Pursuant to this agreement, as amended, Argonaut will expand its surface and mining rights associated with its Magino project. The terms of this agreement provide for a CA$2,000 ($1,541 as at June 30, 2017; $1,490 as at December 31, 2016) payment from Argonaut to Richmont that has been made to escrow and is included in restricted cash. The restricted cash is classified as non-current on the statement of financial position as the Company views this asset as long-term in nature. The closing of this transaction is conditional upon receiving consents and approvals required from certain persons or governmental bodies.

On February 23, 2017, the Company acquired a 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. ("MRO"), a wholly-owned subsidiary of Argonaut (the "Fresnillo Acquisition

(Unaudited and expressed in thousands of United States dollars)

Agreement"). The total amount of cash consideration to be paid under the agreement is $26,000. Cash of $13,000 plus 16% value added tax ("VAT") was paid at the execution of the agreement (the "First Installment"). The remaining $13,000 plus 16% VAT (the "Second Installment") is required to be paid on or before December 15, 2017. If the Company does not pay the Second Installment on or before December 15, 2017 (the "Payment Date"), El Aguila will have the option to either (i) terminate the Fresnillo Acquisition Agreement, or (ii) require the specific performance of the Fresnillo Acquisition Agreement. If El Aguila elects to terminate the Fresnillo Acquisition Agreement as a result of MRO not paying the Second Installment by the Payment Date, MRO shall transfer the rights to the mineral concession that it acquired from El Aguila under the Fresnillo Acquisition Agreement back to El Aguila and El Aguila may retain the First Installment as liquidated damages for such default. Alternatively, if El Aguila elects to require the specific performance of the Fresnillo Acquisition Agreement, MRO will be required to pay El Aguila the Second Installment plus default interest calculated in accordance with the Fresnillo Acquisition Agreement. As at June 30, 2017, the amortized cost of the deferred cash consideration, which approximates the net present value, is $12,705. Accretion of the deferred cash consideration from the date of acquisition to June 30, 2017 is included in finance expenses.

13 FINANCIAL INSTRUMENTS

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

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

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

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

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

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

		June 30, 2017		December 31, 2016
Loans and receivables at amortized cost(1)	$	55,389	$	43,588
Assets at FVTPL(2)	$	1,391	$	-
Other financial liabilities at amortized cost(3)	$	(34,416)	$	(22,402)

(1) Loans and receivables at amortized cost include cash and cash equivalents, restricted cash and other receivables.

(2) Assets at FVTPL include foreign exchange derivative assets.

(3) Other financial liabilities at amortized cost include accounts payable and accrued liabilities, deferred cash consideration, debt and other liabilities.

As at June 30, 2017 and December 31, 2016, the carrying amounts of cash and cash equivalents, other receivables and accounts payable and accrued liabilities are considered to be reasonable approximations of their fair values due to the short-term nature of these instruments. As at June 30, 2017 and December 31, 2016, the carrying amount of restricted cash is considered to be a reasonable approximation of its fair value. As at June 30, 2017 and December 31, 2016, the carrying amount of other liabilities, as at June 30, 2017 the carrying amount of deferred cash consideration and as at December 31, 2016 the carrying amount of debt is considered to be a reasonable approximation of its fair value as there have been no significant changes in market interest rates since inception.

(Unaudited and expressed in thousands of United States dollars)

Foreign exchange derivative contracts

On January 20, 2017, 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 foreign 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:

Foreign exchange contracts at inception (January 20, 2017)	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

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 (loss). During the three and six months ended June 30, 2017, an unrealized gain of $189 and $1,680, respectively, was recognized in the statement of income (loss) on the fair value of the foreign exchange derivatives. During the three and six months ended June 30, 2017, a reversal of an unrealized gain from prior period of ($289) and a realized gain of $831 and $1,024, respectively, was recognized in the statement of income (loss) on exercise of the call option contracts.