ARGONAUT GOLD

Interim Condensed Consolidated Financial Statements

(Unaudited and expressed in thousands of United States dollars)

For the three and nine months ended September 30, 2017 and 2016

ARGONAUT GOLD INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited and expressed in thousands of United States dollars)

		September 30, 2017		December 31, 2016
ASSETS				
Current assets				
Cash and cash equivalents	$	37,456	$	42,098
Receivables (Note 3)		19,275		13,666
Inventories (Note 4)		54,964		61,170
Prepaid income tax		846		641
Prepaid expenses and other		1,707		959
Foreign exchange derivative assets (Note 13)		548		-
		114,796		118,534
Restricted cash (Note 12)		-		1,490
Mineral properties, plant and equipment (Note 5)		573,816		484,094
Deferred income taxes		3,596		5,225
Other assets		380		557
Total assets	$	692,588	$	609,900
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities (Note 6)	$	22,460	$	19,956
Income taxes payable		1,311		2,280
Deferred cash consideration (Note 12)		12,866		-
Current portion of debt (Note 7)		-		916
Foreign exchange derivative liabilities (Note 13)		143		-
		36,780		23,152
Reclamation provision		11,745		10,376
Deferred income taxes		12,913		16,361
Other liabilities		2,828		2,763
Total liabilities		64,266		52,652
SHAREHOLDERS' EQUITY				
Share capital (Note 8(b))		784,429		750,472
Contributed surplus		15,600		15,644
Deficit		(96,531)		(115,196)
Accumulated other comprehensive loss		(75,176)		(93,672)
Total shareholders' equity		628,322		557,248
Total liabilities and shareholders' equity	$	692,588	$	609,900

Commitments and contingencies (Note 12)
Events after the reporting period (Note 14)

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

ARGONAUT GOLD INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Revenue	$ 28,678	$ 35,015	$ 115,635	$ 109,454
Cost of sales				
Production costs	20,311	23,618	74,882	71,627
Depreciation, depletion and amortization	4,794	4,529	17,648	17,801
Reversal of inventory write down (Note 4)	-	-	-	(3,551)
Total cost of sales	25,105	28,147	92,530	85,877
Gross profit	3,573	6,868	23,105	23,577
Exploration expenses	118	128	337	364
General and administrative expenses	2,662	2,598	8,787	7,690
Profit from operations	793	4,142	13,981	15,523
Finance income	18	49	147	138
Finance expenses	(325)	(170)	(1,003)	(392)
Gains on foreign exchange derivatives (Note 13)	155	-	2,570	-
Other income (expense)	12	(615)	2,956	(3,627)
Income before income taxes	653	3,406	18,651	11,642
Current income tax expense	74	570	1,805	2,030
Deferred income tax expense (recovery)	139	2,615	(1,819)	5,814
Net income for the period	$ 440	$ 221	$ 18,665	$ 3,798
Earnings per share				
Basic	$ 0.00	$ 0.00	$ 0.11	$ 0.02
Diluted	$ 0.00	$ 0.00	$ 0.11	$ 0.02
Weighted average number of common shares outstanding (Note 9)				
Basic	176,980,554	158,468,272	171,821,210	157,399,257
Diluted	178,138,671	161,803,028	172,951,589	159,486,529

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Net income for the period	$ 440	$ 221	$ 18,665	$ 3,798
Other comprehensive income (loss), net of tax				
Items that may be reclassified subsequently to net income				
Foreign currency translation differences	9,942	(2,125)	18,496	13,348
Comprehensive income (loss) for the period	$ 10,382	$ (1,904)	$ 37,161	$ 17,146

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

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Operating activities				
Net income for the period	$ 440	$ 221	$ 18,665	$ 3,798
Items not affecting cash:				
Depreciation, depletion and amortization	4,834	4,574	17,775	17,972
(Gain) loss on disposal of equipment	29	93	(11)	114
Share-based compensation	500	727	1,872	2,177
Finance income and expense	307	121	856	254
Unrealized foreign exchange (gain) loss	(359)	7	(610)	(82)
Gains on foreign exchange derivatives	(155)	-	(2,570)	-
Deferred income taxes	139	2,615	(1,819)	5,814
Reversal of inventory write down	-	-	-	(3,551)
	5,735	8,358	34,158	26,496
Changes in non-cash operating working capital items				
Receivables	(1,887)	1,661	(5,674)	1,019
Inventories	474	(2,974)	8,031	(4,312)
Prepaid expenses and other	(1)	505	(715)	296
Accounts payable and accrued liabilities	1,935	(614)	1,977	2,122
Income taxes	(145)	1,213	1,862	3,132
Changes in other long-term assets	1	3	(7)	(1)
Changes in other long-term liabilities	364	8	549	24
Income taxes paid	(200)	(565)	(3,058)	(2,883)
Interest received	18	40	147	107
Net cash provided by operating activities	6,294	7,635	37,270	26,000
Investing activities				
Expenditures on mineral properties, plant and equipment	(26,229)	(10,128)	(77,635)	(23,456)
Proceeds on disposal of mineral properties, plant and equipment	10	-	55	750
Proceeds from sale of other assets	-	-	-	15
Decrease in restricted cash	1,628	-	1,628	-
Net cash used in investing activities	(24,591)	(10,128)	(75,952)	(22,691)
Financing activities				
Proceeds from issuance of common shares, net of share issuance costs (Note 8(b))	334	(44)	32,041	3,245
Repayment of debt	-	(832)	(916)	(2,457)
Debt financing and transaction costs	-	(122)	(200)	(594)
Proceeds from settlement of derivatives	1,141	-	2,165	-
Interest paid	(40)	(59)	(138)	(155)
Net cash provided by (used in) financing activities	1,435	(1,057)	32,952	39
Effects of exchange rate changes on cash and cash equivalents	481	(186)	1,088	1,182
Increase (decrease) in cash and cash equivalents	(16,381)	(3,736)	(4,642)	4,530
Cash and cash equivalents, beginning of period	53,837	54,147	42,098	45,881
Cash and cash equivalents, end of period	$ 37,456	$ 50,411	$ 37,456	$ 50,411

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

	Nine months ended September 30, 2017	Nine months ended September 30, 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	805	51
Restricted shares and restricted share units vested	1,643	1,583
Issuance of flow-through shares	-	2,579
Balance at the end of the period	784,429	750,472
Contributed surplus		
Balance at the beginning of the period	15,644	14,811
Stock options exercised	(273)	(18)
Restricted shares and restricted share units vested	(1,643)	(1,583)
Share-based compensation	1,872	2,177
Balance at the end of the period	15,600	15,387
Deficit		
Balance at the beginning of the period	(115,196)	(119,527)
Net income for the period	18,665	3,798
Balance at the end of the period	(96,531)	(115,729)
Accumulated other comprehensive loss		
Balance at the beginning of the period	(93,672)	(101,128)
Other comprehensive income	18,496	13,348
Balance at the end of the period	(75,176)	(87,780)
Total shareholders' equity	$ 628,322	$ 562,350

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 September 30, 2017, the Company owns the producing El Castillo mine and pre-production development 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 (see note 14).

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, 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 November 2, 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 continues to evaluate the impact of IFRS 9; however, based on the evaluation performed to date, the Company does not expect the standard to have a material impact on the consolidated financial statements upon adoption.

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 continues to evaluate the impact of IFRS 15; however, based on the evaluation performed to date, the Company does not expect the standard to have a material impact on the consolidated financial statements upon adoption.

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 September 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 September 30, 2017.

(Unaudited and expressed in thousands of United States dollars)

3 RECEIVABLES

	September 30, 2017	December 31, 2016
Mexican value added tax receivable	$ 19,228	$ 13,436
Other receivables	47	230
	$ 19,275	$ 13,666

4 INVENTORIES

	September 30, 2017	December 31, 2016
Supplies	$ 8,805	$ 7,484
Work-in-process	45,776	53,432
Finished goods	383	254
	$ 54,964	$ 61,170

Cost of inventories recognized as expense in cost of sales for the three and nine months ended September 30, 2017 totalled $25,105 and $92,530, respectively (three and nine months ended September 30, 2016 - $28,147 and $85,877, respectively). During the three and nine months ended September 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.

(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][6]	64,156	7,611	19,632	91,399
Disposals	-	-	(712)	(712)
Adjustment on currency translation	-	17,979	1	17,980
Balance at September 30, 2017	477,165	370,704	136,766	984,635
Accumulated depreciation, depletion, amortization and impairment				
Balance at January 1, 2017	297,408	-	94,466	391,874
Additions	15,238	-	4,375	19,613
Disposals	-	-	(668)	(668)
Balance at September 30, 2017	312,646	-	98,173	410,819
Net book value at September 30, 2017	$ 164,519	$ 370,704	$ 38,593	$ 573,816
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 September 30, 2017, plant and equipment includes $2,250 and mineral properties includes $2,253 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. Additionally, as at September 30, 2017, plant and equipment includes $26,679 and mineral properties includes $92,245 of assets subject to depreciation and depletion, for which the depreciation and depletion is being capitalized to pre-production costs, see footnote 6.

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

[4]During the nine months ended September 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 nine months ended September 30, 2017, the Company increased the estimate of the provision for reclamation at the San Agustin project by $1,237.

[6]During the nine months ended September 30, 2017, pre-production costs (including depreciation and depletion), net of sales proceeds of $704, totaling $7,882 were capitalized to mineral properties related to the San Agustin project.

(Unaudited and expressed in thousands of United States dollars)

6 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2017	December 31, 2016
Trade accounts payable	$ 14,696	$ 12,157
Accrued liabilities	7,764	7,799
	$ 22,460	$ 19,956

7 DEBT

	September 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 September 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	14,700		31
Stock options exercised (Note 8(c))	477,176		805
Forfeiture of restricted shares previously issued to employees (Note 8(c))	(271,298)		-
Balance at September 30, 2017	177,221,630	$	784,429

[(1)] During the nine months ended September 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 September 30, 2017:

	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	8.35	$	1.10	474,808	$	1.10
	1.32 - 2.52	914,509	9.27		2.42	23,331		1.83
	2.53 - 3.49	635,989	7.40		2.60	396,755		2.59
	3.50 - 5.00	497,597	5.10		4.47	489,505		4.48
	5.01 - 7.50	103,717	4.92		6.83	103,717		6.83
	7.51 - 10.35	413,745	5.12		8.99	413,745		8.99
$	1.10 - 10.35	3,989,989	7.58	$	3.03	1,901,861	$	4.32

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	904,799		2.45
Exercised	(477,176)		1.42
Forfeited	(1,050,213)		3.72
Outstanding at September 30, 2017	3,989,989	$	3.03

(Unaudited and expressed in thousands of United States dollars)

The weighted average share price at the time of exercise for the nine months ended September 30, 2017 was CA$2.55 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 nine months ended September 30, 2017 was $218 and $630, respectively (three and nine months ended September 30, 2016 - $268 and $808, respectively). As at September 30, 2017, there was $686 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 nine months ended September 30:

		2017		2016
Weighted average share price	CA$	2.45	CA$	1.15
Expected dividend yield		Nil		Nil
Expected volatility		64.0%		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$	0.62

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, 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)]	751,355		2.45
Vested[(2)]	(992,283)		1.90
Forfeited[(3)]	(296,375)		1.38
Outstanding at September 30, 2017	1,396,230	$	1.91

(1) The restricted shares and RSUs granted during the nine months ended September 30, 2017 includes 663,440 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 nine months ended September 30, 2017 includes 14,700 RSUs granted to employees (year ended December 31, 2016 - nil).

(3) The restricted shares and RSUs forfeited during the nine months ended September 30, 2017 includes 25,077 RSUs (year ended December 31, 2016 - nil).

(Unaudited and expressed in thousands of United States dollars)

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 nine months ended September 30, 2017 was $282 and $1,242, respectively (three and nine months ended September 30, 2016 - $459 and $1,369, respectively). As at September 30, 2017, there was $887 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")

As at December 31, 2016, in addition to the options outstanding that were granted by the Company, the Company had 674,749 outstanding stock options, with a weighted average exercise price of CA$7.32, 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 expired unexercised 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.

9 SHARES OUTSTANDING

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Basic weighted average shares outstanding	176,980,554	158,468,272	171,821,210	157,399,257
Weighted average shares dilution adjustments:[(1)]				
Stock options	844,296	3,334,756	885,836	2,087,272
Restricted share units	313,821	-	244,542	-
Diluted weighted average shares outstanding	178,138,671	161,803,028	172,951,589	159,486,529

[(1)] Impact of dilutive stock options and RSUs was determined using the Company's average share price for the three and nine months ended September 30, 2017 of CA$2.45 and CA$2.36, respectively (three and nine months ended September 30, 2016 - CA$3.67 and CA$2.65, respectively). During the three and nine months ended September 30, 2017 and 2016, certain stock options and RSUs were excluded from the calculation of diluted earnings per share due to the assumed exercise prices being greater than the average market price.

(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 September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Mineral property addition for change in estimate of reclamation provision (Note 5)	$ (413)	$ -	$ (1,237)	$ -
Increase (decrease) in expenditures on mineral properties, plant and equipment related to a decrease (increase) in accounts payable and accrued liabilities	$ 437	$ (1,577)	$ (53)	$ (1,481)
Mineral property acquired for deferred cash consideration	$ -	$ -	$ (12,486)	$ -
Fair value of restricted shares and restricted share units allocated to share capital upon issuance	$ 9	$ 16	$ 1,643	$ 1,583

(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 pre-production development 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 nine months ended September 30, 2017, sales were to three customers (nine months ended September 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 September 30, 2017						
Revenue	$ 15,656	$ 13,022	$ -	$ -	$ -	$ 28,678
Production costs	11,714	8,597	-	-	-	20,311
Depreciation, depletion and amortization	1,484	3,310	-	-	-	4,794
Total cost of sales	13,198	11,907	-	-	-	25,105
Gross profit	2,458	1,115	-	-	-	3,573
Exploration expenses	-	115	-	-	3	118
General and administrative expenses	595	209	-	-	1,858	2,662
Income (loss) from operations	$ 1,863	$ 791	$ -	$ -	$ (1,861)	$ 793
Capital expenditures	$ 18,651	$ 4,386	$ 302	$ 2,927	$ 893	$ 27,159
Nine months ended September 30, 2017						
Revenue	$ 67,340	$ 48,295	$ -	$ -	$ -	$ 115,635
Production costs	48,733	26,149	-	-	-	74,882
Depreciation, depletion and amortization	6,251	11,397	-	-	-	17,648
Total cost of sales	54,984	37,546	-	-	-	92,530
Gross profit	12,356	10,749	-	-	-	23,105
Exploration expenses	-	311	-	17	9	337
General and administrative expenses	1,378	955	-	-	6,454	8,787
Income (loss) from operations	$ 10,978	$ 9,483	$ -	$ (17)	$ (6,463)	$ 13,981
Capital expenditures	$ 66,234	$ 15,306	$ 1,215	$ 6,385	$ 2,259	$ 91,399
September 30, 2017						
Mineral properties, plant and equipment	$ 152,184	$ 39,609	$ 112,229	$ 258,266	$ 11,528	$ 573,816
Total assets	$ 208,192	$ 78,137	$ 112,746	$ 259,109	$ 34,404	$ 692,588

(Unaudited and expressed in thousands of United States dollars)

	El Castillo	La Colorada	San Antonio	Magino	Corporate and other	Total
Three months ended September 30, 2016						
Revenue	$ 17,511	$ 17,504	$ -	$ -	$ -	$ 35,015
Production costs	12,219	11,399	-	-	-	23,618
Depreciation, depletion and amortization	1,971	2,558	-	-	-	4,529
Total cost of sales	14,190	13,957	-	-	-	28,147
Gross profit	3,321	3,547	-	-	-	6,868
Exploration expenses	-	102	-	4	22	128
General and administrative expenses	238	252	-	19	2,089	2,598
Income (loss) from operations	$ 3,083	3,193	-	(23)	(2,111)	$ 4,142
Capital expenditures	$ 3,300	$ 4,501	$ 496	$ 2,613	$ 895	$ 11,805
Nine months ended September 30, 2016						
Revenue	$ 56,298	$ 53,156	$ -	$ -	$ -	$ 109,454
Production costs	39,992	31,635	-	-	-	71,627
Depreciation, depletion and amortization	9,408	8,393	-	-	-	17,801
Reversal of inventory write down	(3,551)	-	-	-	-	(3,551)
Total cost of sales	45,849	40,028	-	-	-	85,877
Gross profit	10,449	13,128	-	-	-	23,577
Exploration expenses	-	331	-	11	22	364
General and administrative expenses	712	635	-	39	6,304	7,690
Income (loss) from operations	$ 9,737	$ 12,162	$ -	$ (50)	$ (6,326)	$ 15,523
Capital expenditures	$ 6,735	$ 11,385	$ 1,102	$ 3,537	$ 2,101	$ 24,860
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 ($1,490 as at December 31, 2016) payment from Argonaut to Richmont that was made to escrow upon execution of the agreement and included in restricted cash as at December 31, 2016. During the nine months ended September 30, 2017, the Company received the conditional consents and approvals required from certain persons or governmental bodies and the escrow funds were released to Richmont. Accordingly, the Company reclassified the CA$2,000 from restricted cash to exploration and evaluation assets during the period.

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 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 September 30, 2017, the amortized cost of the deferred cash consideration, which approximates the net present value, is $12,866. Accretion of the deferred cash consideration from the date of acquisition to September 30, 2017 is included in finance expenses.

(Unaudited and expressed in thousands of United States dollars)

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, 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.

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

		September 30, 2017		December 31, 2016
Loans and receivables at amortized cost(1)	$	37,470	$	43,588
Assets at FVTPL(2)	$	548	$	-
Other financial liabilities at amortized cost(3)	$	(36,505)	$	(22,402)
Liabilities at FVTPL(4)	$	(143)	$	-

(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.

(4) Liabilities at FVTPL include foreign exchange derivative liabilities.

As at September 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 December 31, 2016, the carrying amount of restricted cash is considered to be a reasonable approximation of its fair value. As at September 30, 2017 and December 31, 2016, the carrying amount of other liabilities, as at September 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 and September 25, 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 ("2017 foreign exchange contracts" and "2018 foreign exchange contracts", respectively). 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:

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	Strike price
Foreign exchange call options - purchased	$ 18,000	January 2018 - December 2018	17.50 Mexican pesos per US dollar
Foreign exchange put options - sold	$ 18,000	January 2018 - December 2018	21.00 Mexican pesos per US dollar

The resulting fair values of these contracts have been recognized, on a net basis, in foreign exchange derivative assets or foreign exchange derivative liabilities 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 September 30, 2017	Nine months ended September 30, 2017
2017 foreign exchange contracts		
Unrealized gain	$ 14	$ 1,694
Reversal of unrealized gain from prior period	(857)	(1,146)
Realized gain	1,141	2,165
2018 foreign exchange contracts		
Unrealized loss	(143)	(143)
Net gain on foreign exchange contracts	$ 155	$ 2,570

14 EVENTS AFTER THE REPORTING PERIOD

Subsequent to September 30, 2017, the Company announced that commercial production had been achieved at the San Agustin project effective October 1, 2017. As a result, the Company reclassified approximately $7,200 of pre-production costs incurred at the San Agustin project to work-in-process inventory effective October 1, 2017 and all precious metal from the San Agustin mine sold on or after October 1, 2017, along with the related production costs and depreciation, depletion and amortization, will be recorded in the statement of income.