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, 2016 and 2015

ARGONAUT GOLD INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited and expressed in thousands of United States dollars)

		September 30, 2016		December 31, 2015
ASSETS				
Current assets				
Cash and cash equivalents	$	50,411	$	45,881
Receivables (Note 3)		12,626		13,428
Inventories (Note 4)		56,960		54,543
Prepaid income tax		1,845		2,268
Prepaid expenses and other		1,622		1,214
		123,464		117,334
Assets held for sale		-		750
		123,464		118,084
Restricted cash (Note 12)		1,525		1,445
Mineral properties, plant and equipment (Note 5)		478,133		453,765
Deferred income taxes		5,251		4,374
Other assets		677		598
Total assets	$	609,050	$	578,266
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities (Note 6)	$	19,911	$	15,909
Income taxes payable		1,199		1,373
Current portion of debt (Note 7)		1,496		3,037
Flow-through share premium (Note 8(b))		277		-
		22,883		20,319
Debt (Note 7)		-		916
Reclamation provision		8,637		8,529
Deferred income taxes		14,432		7,392
Other liabilities		748		695
Total liabilities		46,700		37,851
SHAREHOLDERS' EQUITY				
Share capital (Note 8(b))		750,472		746,259
Contributed surplus		15,387		14,811
Deficit		(115,729)		(119,527)
Accumulated other comprehensive loss		(87,780)		(101,128)
Total shareholders' equity		562,350		540,415
Total liabilities and shareholders' equity	$	609,050	$	578,266

Commitments and contingencies (Notes 8(b) and 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 (LOSS)

For the three and nine months ended September 30, 2016 and 2015
(Unaudited and expressed in thousands of United States dollars)

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Revenue	$ 35,015	$ 32,106	$ 109,454	$ 126,596
Cost of sales				
Production costs	23,618	22,260	71,627	82,325
Depreciation, depletion and amortization	4,529	9,028	17,801	33,316
Inventory write down (reversal) (Note 4)	-	6,703	(3,551)	20,314
Total cost of sales	28,147	37,991	85,877	135,955
Gross profit (loss)	6,868	(5,885)	23,577	(9,359)
Exploration expenses	128	141	364	459
General and administrative expenses	2,598	2,075	7,690	7,930
Other operating expenses	-	499	-	707
Profit (loss) from operations	4,142	(8,600)	15,523	(18,455)
Finance income	49	42	138	165
Finance expenses	(170)	(135)	(392)	(770)
Other expense	(615)	(2,220)	(3,627)	(2,853)
Income (loss) before income taxes	3,406	(10,913)	11,642	(21,913)
Income tax expense (recovery)	3,185	265	7,844	(1,737)
Net income (loss) for the period	$ 221	$ (11,178)	$ 3,798	$ (20,176)
Earnings (loss) per share				
Basic	$ 0.00	$ (0.07)	$ 0.02	$ (0.13)
Diluted	$ 0.00	$ (0.07)	$ 0.02	$ (0.13)
Weighted average number of common shares outstanding (Note 9)				
Basic	158,468,272	155,347,726	157,399,257	155,200,890
Diluted	161,803,028	155,347,726	159,486,529	155,200,890

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, 2016 and 2015
(Unaudited and expressed in thousands of United States dollars)

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Net income (loss) for the period	$ 221	$ (11,178)	$ 3,798	$ (20,176)
Other comprehensive income (loss), net of tax				
Items that may be reclassified subsequently to net income (loss)				
Foreign currency translation differences	(2,125)	(17,990)	13,348	(37,911)
Comprehensive income (loss) for the period	$ (1,904)	$ (29,168)	$ 17,146	$ (58,087)

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, 2016 and 2015
(Unaudited and expressed in thousands of United States dollars)

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Operating activities				
Net income (loss) for the period	$ 221	$ (11,178)	$ 3,798	$ (20,176)
Items not affecting cash:				
Depreciation, depletion and amortization	4,574	9,095	17,972	33,575
Loss on disposal of equipment	93	301	114	347
Share-based compensation	727	667	2,177	2,165
Finance income and expense	121	93	254	605
Unrealized foreign exchange (gain) loss	7	22	(82)	58
Loss on other assets	-	7	-	44
Deferred income taxes	2,615	985	5,814	(2,014)
Inventory write down (reversal)	-	6,703	(3,551)	20,314
	8,358	6,695	26,496	34,918
Changes in non-cash operating working capital items				
Receivables	1,661	7,106	1,019	10,213
Inventories	(2,974)	(462)	(4,312)	5,556
Prepaid expenses and deposits	505	296	296	88
Accounts payable and accrued liabilities	(614)	(1,934)	2,122	(3,964)
Income taxes	1,213	257	3,132	1,697
Changes in other long-term assets	3	(273)	(1)	(275)
Changes in other long-term liabilities	8	(161)	24	(229)
Income taxes refunded (paid)	(565)	(1,167)	(2,883)	526
Interest received	40	19	107	80
Net cash provided by operating activities	7,635	10,376	26,000	48,610
Investing activities				
Expenditures on mineral properties, plant and equipment	(10,128)	(9,671)	(23,456)	(31,711)
Proceeds on disposal of mineral properties, plant and equipment	-	1,319	750	1,325
Proceeds from sale of other assets	-	-	15	-
Payment of deferred cash consideration	-	-	-	(20,000)
Net cash used in investing activities	(10,128)	(8,352)	(22,691)	(50,386)
Financing activities				
Repayment of debt	(832)	(825)	(2,457)	(3,029)
Debt financing and transaction costs (Note 7)	(122)	-	(594)	-
Proceeds from exercise of stock options	21	-	33	-
Proceeds (costs) from issuance of flow-through shares (Note 8(b))	(65)	-	3,212	-
Interest paid	(59)	(81)	(155)	(288)
Net cash provided by (used in) financing activities	(1,057)	(906)	39	(3,317)
Effects of exchange rate changes on cash and cash equivalents	(186)	(1,044)	1,182	(2,629)
Increase (decrease) in cash and cash equivalents	(3,736)	74	4,530	(7,722)
Cash and cash equivalents, beginning of period	54,147	43,650	45,881	51,446
Cash and cash equivalents, end of period	$ 50,411	$ 43,724	$ 50,411	$ 43,724

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, 2016 and 2015

(Unaudited and expressed in thousands of United States dollars)

	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Share capital (Note 8(b))		
Balance at the beginning of the period	$ 746,259	$ 744,913
Stock options exercised	51	-
Restricted shares vested	1,583	1,346
Issuance of flow-through shares	2,579	-
Balance at the end of the period	750,472	746,259
Contributed surplus		
Balance at the beginning of the period	14,811	13,380
Stock options exercised	(18)	-
Restricted shares vested	(1,583)	(1,346)
Share-based compensation	2,177	2,165
Balance at the end of the period	15,387	14,199
Retained earnings (deficit)		
Balance at the beginning of the period	(119,527)	83,186
Net income (loss) for the period	3,798	(20,176)
Balance at the end of the period	(115,729)	63,010
Accumulated other comprehensive loss		
Balance at the beginning of the period	(101,128)	(55,142)
Other comprehensive income (loss)	13,348	(37,911)
Balance at the end of the period	(87,780)	(93,053)
Total shareholders' equity	$ 562,350	$ 730,415

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, 2016, the Company owns the producing El Castillo mine in the State of Durango, Mexico, the producing La Colorada mine in the State of Sonora, Mexico, the advanced exploration stage San Antonio property in the State of Baja California Sur, Mexico, the advanced exploration stage Magino property in the Province of Ontario, Canada, the advanced exploration stage San Agustin property located 10 kilometres from the El Castillo mine in the State of Durango, Mexico, and several other exploration stage projects, all of which are located in North America. The Company is pursuing a development strategy for the San Agustin project that it expects to rely upon common infrastructure with the nearby El Castillo mine. In the event that this strategy is proven out, the Company intends any future development of the San Agustin project to proceed as an extension of the El Castillo mine. (See note 14)

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, 2015, 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 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, 2016.

(a) New accounting policy for 2016 for flow-through common shares

The Company may, from time to time, issue flow-through common shares (as defined in the *Income Tax Act* (Canada)) to finance a portion of its Canadian exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the proceeds received from flow-through shares into: i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and ii) share capital. The Company derecognizes the flow-through share premium liability when the qualifying resource expenditures are made and recognizes a deferred tax recovery for the amount of the tax reduction renounced to the shareholders that relates to the qualifying expenditures made.

(b) Recent accounting pronouncements

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2016, 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 has yet to assess the full 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. 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. Management 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 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, 2015.

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. As at September 30, 2016, management of the Company determined the continued weakness in the Company's share price during 2016, 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, 2015. Management's impairment evaluation did not result in the identification or reversal of an impairment loss as at September 30, 2016.

Work-in-process inventory / Production costs

The Company's management makes estimates of the amount of recoverable ounces in work-in-process inventory which is used in the determination of the cost of goods sold during the period. Changes in these estimates can result in a change in the carrying amount of inventories and mine operating costs of future periods. The Company monitors the recovery of gold ounces from the leach pad and may refine its estimate based on these results. Assumptions used in inventory valuation include type of mineralized material mined, rock density, grams of gold per tonne, expected recovery rate based on the type of mineralized material placed on the leach pad, and assays of solutions and gold on carbon, among others.

During the three and nine months ended September 30, 2016, the Company recognized a non-cash impairment reversal on work-in-process inventory of nil and $3,551, respectively (three and nine months ended September 30, 2015 – write down of $6,703 and $20,314, respectively), see note 4.

(Unaudited and expressed in thousands of United States dollars)

3 RECEIVABLES

	September 30, 2016	December 31, 2015
Mexican VAT receivable	$ 12,321	$ 13,349
Canadian GST and HST receivable	217	22
Other receivables	88	57
	$ 12,626	$ 13,428

4 INVENTORIES

	September 30, 2016	December 31, 2015
Supplies	$ 6,983	$ 8,242
Work-in-process	49,778	46,187
Finished goods	199	114
	$ 56,960	$ 54,543

Cost of inventories recognized as expense in cost of sales for the three and nine months ended September 30, 2016 totalled $28,147 and $85,877, respectively (three and nine months ended September 30, 2015 - $37,991 and $135,955, respectively). During the year ended December 31, 2015, the Company recorded non-cash impairment write downs of $25,929 related to net realizable value and changes in the expected recovery of gold ounces from mineralized material in the work-in-process inventory at the El Castillo mine. 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 inventory reversal / 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	Exploration and evaluation assets	Plant and equipment[(1)]	Total[(2)]
Cost				
Balance at January 1, 2016	$ 310,589	$ 406,274	$ 113,557	$ 830,420
Additions	14,107	6,622	4,131	24,860
Disposals	-	-	(2,234)	(2,234)
Adjustment on currency translation	-	12,173	2	12,175
Balance at September 30, 2016	324,696	425,069	115,456	865,221
Accumulated depreciation, depletion, amortization and impairment				
Balance at January 1, 2016	284,195	-	92,460	376,655
Additions	8,718	-	3,836	12,554
Disposals	-	-	(2,121)	(2,121)
Balance at September 30, 2016	292,913	-	94,175	387,088
Net book value at September 30, 2016	$ 31,783	$ 425,069	$ 21,281	$ 478,133
Cost				
Balance at January 1, 2015	$ 288,690	$ 452,947	$ 111,832	$ 853,469
Additions	21,899	7,729	7,840	37,468
Disposals	-	-	(6,096)	(6,096)
Write-off of exploration property	-	(374)	-	(374)
Impairment	-	(10,744)	-	(10,744)
Assets held for sale	-	(750)	-	(750)
Adjustment on currency translation	-	(42,534)	(19)	(42,553)
Balance at December 31, 2015	310,589	406,274	113,557	830,420
Accumulated depreciation, depletion, amortization and impairment				
Balance at January 1, 2015	102,034	-	26,392	128,426
Additions	31,760	-	11,006	42,766
Disposals	-	-	(4,258)	(4,258)
Impairment	150,401	-	59,320	209,721
Balance at December 31, 2015	284,195	-	92,460	376,655
Net book value at December 31, 2015	$ 26,394	$ 406,274	$ 21,097	$ 453,765

(1) Assets under construction with a net book value of $286 (December 31, 2015 - $426) are not subject to amortization at the statement of financial position date.

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

(Unaudited and expressed in thousands of United States dollars)

6 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2016	December 31, 2015
Trade accounts payable	$ 13,021	$ 9,741
Accrued liabilities	6,890	6,168
	$ 19,911	$ 15,909

7 DEBT

	September 30, 2016	December 31, 2015
Current:		
Finance lease obligations	$ 131	$ 1,281
Other debt	1,365	1,756
	$ 1,496	$ 3,037

	September 30, 2016	December 31, 2015
Non-current:		
Other debt	$ -	$ 916
	$ -	$ 916

The facilities related to finance lease obligations are primarily for heavy mining equipment, with maturities to October 2016 and interest rates of 5.8% per annum. The Company has granted the lessor security on the finance lease obligations, being the related mining equipment, which had a carrying value at September 30, 2016 in excess of the future minimum lease payments.

During 2014, the Company entered into a borrowing arrangement with a maturity of April 2017 and interest rate of 5.7% per annum, secured by heavy mining equipment. This arrangement is classified as Other debt.

On April 28, 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 development of the San Agustin property 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. To September 30, 2016, the Company incurred $794 in transaction costs and upfront fees on closing of the Revolving Facility, which will be amortized over the term of the Revolving Facility. The Company has not drawn any funds under the Revolving Facility and is in compliance with the covenants as at September 30, 2016.

(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, 2015	154,446,434	$	744,913
Restricted shares issued to directors	81,094		166
Restricted shares issued to employees - vested[(1)]	-		1,135
Restricted shares issued to employees - unvested	780,554		-
Restricted shares issued to consultants - vested	32,847		45
Restricted shares issued to consultants - unvested	32,847		-
Forfeiture of restricted shares previously issued to employees (Note 8(c))	(26,666)		-
Balance at December 31, 2015	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))	(18,621)		-
Balance at September 30, 2016	158,469,446	$	750,472

[(1)] During the nine months ended September 30, 2016, 395,834 and 32,847 restricted shares granted to employees and consultants, respectively, vested (year ended December 31, 2015 - 175,708 and nil, 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 agrees 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. Management intends to use the proceeds to fund exploration expenditures at the Magino project and expects to incur the required expenditures during the remainder of 2016. As at September 30, 2016, the remaining unspent amount was $1,538 (CA$2,018).

(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.

(Unaudited and expressed in thousands of United States dollars)

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, 2016 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	2,454,496	9.35	$ 1.10	-	$ -
1.32 - 2.56	992,753	8.35	2.53	327,579	2.54
2.57 - 4.49	456,094	5.31	3.84	365,763	4.00
4.50 - 6.63	443,989	7.18	5.13	309,342	5.18
6.64 - 8.45	273,703	5.74	8.14	273,703	8.14
8.46 - 10.35	385,371	6.30	9.24	385,371	9.24
$ 1.10 - 10.35	5,006,406	8.16	$ 3.00	1,661,758	$ 5.83

The following table summarizes stock option activity for the Company:

	Options	Weighted average exercise price (CA$)
Outstanding at January 1, 2015	1,765,495	$ 6.39
Granted	1,014,001	2.55
Forfeited	(151,548)	5.41
Outstanding at December 31, 2015	2,627,948	4.96
Granted	2,562,923	1.15
Exercised	(24,604)	1.75
Forfeited	(159,861)	5.69
Outstanding at September 30, 2016	5,006,406	$ 3.00

The weighted average share price at the time of exercise for the nine months ended September 30, 2016 was CA$3.35 per share. The total share-based compensation expense related to stock options granted by the Company for the three and nine months ended September 30, 2016 was $268 and $808, respectively (three and nine months ended September 30, 2015 - $304 and $932, respectively). As at September 30, 2016, there was $875 of unamortized stock-based compensation expense related to stock options granted by the Company (December 31, 2015 - $581).

(Unaudited and expressed in thousands of United States dollars)

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

		2016		2015
Weighted average share price	CA$	1.15	CA$	2.56
Expected dividend yield		Nil		Nil
Expected volatility		58.4%		56.4%
Risk-free interest rate		0.7%		0.8%
Estimated forfeiture rate		5.9%		5.9%
Expected life		6 years		6 years
Weighted average fair value per stock option granted	CA$	0.62	CA$	1.34

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, 2015	411,626	$	6.25
Granted	927,342		2.49
Vested	(289,649)		5.03
Forfeited	(26,666)		3.38
Outstanding at December 31, 2015	1,022,653		3.26
Granted (1)	1,845,288		1.16
Vested	(625,077)		2.99
Forfeited	(18,621)		2.56
Outstanding at September 30, 2016	2,224,243	$	1.60

(1) The restricted shares and RSUs granted during the nine months ended September 30, 2016, includes 8,935 RSUs granted to employees that will be issued once the shares vest according to the terms below.

Restricted shares 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, 2016 was $459 and $1,369, respectively (three and nine months ended September 30, 2015 - $363 and $1,233, respectively). As at September 30, 2016, there was $1,365 of unamortized stock-based compensation expense related to restricted shares and RSUs (December 31, 2015 - $797).

(Unaudited and expressed in thousands of United States dollars)

(d) Options and warrants issued on acquisition of Prodigy Gold Inc. ("Prodigy")

At September 30, 2016, the Company had outstanding options for the purchase of common shares by former holders of Prodigy 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. At September 30, 2016, the outstanding Prodigy stock options expire between January 2017 and 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.

The Prodigy stock option activity was as follows:

	Options	Weighted average exercise price (CA$)
Outstanding at January 1, 2015	1,352,611	$ 5.99
Expired	(323,029)	3.71
Outstanding at December 31, 2015	1,029,582	6.70
Expired	(354,833)	5.53
Outstanding at September 30, 2016	674,749	$ 7.32

9 SHARES OUTSTANDING

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Basic weighted average shares outstanding	158,468,272	155,347,726	157,399,257	155,200,890
Weighted average shares dilution adjustments:				
Stock options[(1)(2)]	3,334,756	-	2,087,272	-
Diluted weighted average shares outstanding	161,803,028	155,347,726	159,486,529	155,200,890

(1) Impact of dilutive stock options was determined using the Company's average share price for the three and nine months ended September 30, 2016 of CA$3.67 and CA$2.65, respectively.

(2) As a result of the net loss incurred during the three and nine months ended September 30, 2015, stock options have been excluded from the computations 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 activities during the period were as follows:

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Increase (decrease) in accounts payable related to mineral properties, plant and equipment	$ (1,577)	$ 371	$ (1,481)	$ 1,138

(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 (losses) or assets exceed 10% of the total consolidated revenues, earnings (losses) 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 advanced exploration stage San Agustin project are reported in the El Castillo segment. The Company operates in the mining industry and its principal product is gold. Sales are to 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, 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
September 30, 2016						
Mineral properties, plant and equipment	$ 85,139	$ 35,967	$ 110,643	$ 236,067	$ 10,317	$ 478,133
Total assets	$ 139,254	$ 73,709	$ 111,059	$ 239,790	$ 45,238	$ 609,050

(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, 2015						
Revenue	$ 19,222	$ 12,884	$ -	$ -	$ -	$ 32,106
Production costs	15,582	6,678	-	-	-	22,260
Depreciation, depletion and amortization	6,108	2,920	-	-	-	9,028
Inventory write down	6,703	-	-	-	-	6,703
Total cost of sales	28,393	9,598	-	-	-	37,991
Gross profit (loss)	(9,171)	3,286	-	-	-	(5,885)
Exploration expenses	-	140	-	1	-	141
General and administrative expenses	157	278	-	-	1,640	2,075
Other operating expenses	121	77	-	-	301	499
Profit (loss) from operations	$ (9,449)	$ 2,791	$ -	$ (1)	$ (1,941)	$ (8,600)
Capital expenditures	$ 3,918	$ 2,909	$ 509	$ 661	$ 1,326	$ 9,323
Nine months ended September 30, 2015						
Revenue	$ 72,911	$ 53,685	$ -	$ -	$ -	$ 126,596
Production costs	55,916	26,409	-	-	-	82,325
Depreciation, depletion and amortization	21,864	11,452	-	-	-	33,316
Inventory write down	20,314	-	-	-	-	20,314
Total cost of sales	98,094	37,861	-	-	-	135,955
Gross profit (loss)	(25,183)	15,824	-	-	-	(9,359)
Exploration expenses	-	449	-	10	-	459
General and administrative expenses	771	980	-	-	6,179	7,930
Other operating expenses	283	77	-	-	347	707
Profit (loss) from operations	$ (26,237)	$ 14,318	$ -	$ (10)	$ (6,526)	$ (18,455)
Capital expenditures	$ 14,873	$ 8,127	$ 1,548	$ 2,654	$ 3,599	$ 30,801
December 31, 2015						
Mineral properties, plant and equipment	$ 79,695	$ 33,935	$ 109,541	$ 220,382	$ 10,212	$ 453,765
Total assets	$ 134,202	$ 65,659	$ 109,935	$ 222,474	$ 45,996	$ 578,266

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 ($1,525 as at September 30, 2016; $1,445 as at December 31, 2015) 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.

(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, receivables, accounts payable and accrued liabilities and debt.

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

	September 30, 2016	December 31, 2015
Loans and receivables at amortized cost[1]	$ 52,024	$ 47,383
Other financial liabilities at amortized cost[2]	$ (21,407)	$ (19,862)

[1] Loans and receivables at amortized cost include cash and cash equivalents, restricted cash and other receivables.

[2] Other financial liabilities at amortized cost include accounts payable and accrued liabilities and debt.

At September 30, 2016 and December 31, 2015, 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. At September 30, 2016 and December 31, 2015, the carrying amount of restricted cash is considered to be a reasonable approximation of its fair value. At September 30, 2016 and December 31, 2015, 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.

14 EVENTS AFTER THE REPORTING PERIOD

Subsequent to September 30, 2016, the Company received the Change in Use of Soil permit for the San Agustin project, the last significant permit required to commence construction. With receipt of this permit, the Board of Directors approved construction of the project.